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INDUSTRIAL CO-OPERATION BETWEEN SOCIALIST COUNTRIES

OF EASTERN EUROPE AND DEVELOPING COUNTRIES*

Prepared by
the secretariat of UNIDO

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List of Abbreviations

ADB	Asian Development Bank
AFDB	African Development Bank
CMEA	Council for Mutual Economic Assistance
FTE	Foreign Trade Enterprise
IADB	Inter-American Development Bank
IBEC	International Bank for Economic Co-operation
IDCAS	Industrial Development Centre for Arab States
IIB	International Investment Bank
KINTS	Commission for Economic, Scientific and Technological Co-operation (Bulgaria)
SDR	Special Drawing Rights

INTRODUCTION

Following the Lima Declaration and Plan of Action on Industrial Development and Co-operation, the Seventh Special Session of the United Nations General Assembly adopted a resolution recommending, inter alia, the conducting of a joint study "making full use of the knowledge, experience and capacity existing in the United Nations system of methods and mechanisms for diversified financial and technical co-operation which are geared to the special and changing requirements of international industrial co-operation as well as of a general set of guidelines for bilateral industrial co-operation." (A/RES/3362(S-VII), Section IV, para. 7)

International industrial co-operation today has become an important factor in economic relations between countries, and it is becoming increasingly comprehensive. One of its components is industrial co-operation between developing countries and the socialist countries of Eastern Europe, which over the last two decades have emerged as important partners of the developing countries. The rapid development of co-operation between the two groups has promoted the diversification of world economic relations and it may now be considered one of the elements or vehicles for building up the new international economic order.

The socialist countries of Eastern Europe belong to a socio-economic system that is different from the systems of other countries. Consequently, fostering their links with developing countries has called for new methods of trade and co-operation, departing very often from the established world trade transactions. Although industrial co-operation between the socialist countries of Eastern Europe and developing countries is a comparatively new phenomenon in international economic relations, the main trends of co-operation have already been revealed. The following trends can be identified:

- Assistance in overcoming economic and industrial backwardness and establishing an independent modern economy in developing countries so that these countries can participate in the international division of labour on a truly equal basis;

Expansion of the countries' opportunities in using the advantages of international division of labour derived from mutually beneficial trade and economic and scientific technological co-operation;

Gradual formation of a system of stable economic links between countries with different levels of development and different socio-economic systems, on the basis of a new international division of labour.

These trends indicate that the socialist countries of Eastern Europe support the aspirations of the developing countries to achieve and strengthen their economic independence, and they are fully determined to contribute to the achievement of the goals laid down in the Declaration on the Establishment of a New International Economic Order.

Taking this into consideration the International Centre for Industrial Studies of UNIDO has prepared within the framework of its work programme a study, the purpose of which is to provide basic information on the main aspects of industrial co-operation between the socialist countries of Eastern Europe and developing countries. The study concentrates mainly on the organizational and institutional arrangements for industrial co-operation and its financial and legal aspects. At the same time, the study pays due attention to the factors influencing co-operation between the two groups of countries and to problems arising in the course of co-operation. In accordance with the existing institutional structure of co-operation, the study provides an analysis of multilateral and bilateral mechanisms of co-operation, as well as of new trends in this field. Along with the description of financial and legal arrangements, a special chapter is devoted to new forms and methods of co-operation, including joint ventures and tripartite co-operation. In another chapter, a description is given of the methods and procedures used to identify mutual interest and the benefits of co-operation.

The study is based on findings published by scholars from East European socialist countries relating to economic and industrial co-operation between socialist and developing countries, as well as on the contribution made by UNIDO consultants: Dr. Sc. Econ. L. Zevin (USSR), M.A. Econ. B. Kwaśniewski (Poland), M.A. Techn. E. Ivan (Hungary) and a group of staff members of the Economic Institute of the Bulgarian Academy of Science.

Chapter I

BASIC FEATURES OF CO-OPERATION AND FACTORS INFLUENCING INDUSTRIAL CO-OPERATION BETWEEN SOCIALIST AND DEVELOPING COUNTRIES

In recent years, economic and industrial co-operation between the socialist countries of Eastern Europe and developing countries has been considerably intensified, and it has become one of the dynamic forces of international co-operation. The economic and technological prerequisites for industrial co-operation between the two groups of countries are based on the different levels of development and the composition of their natural resources, which tend to make their economic structure mutually complementary. An important role is also played by the difference in industrial production conditions, by the different character of industrial development, as well as by the appreciable differences in scientific and technological potentials.

Mention should also be made of the transition from import substitution to export-oriented strategy in many developing countries and the increased role of external factors in the economies of socialist states, as well as the accelerated rate of developing outward economic ties as reflected in the countries' long-term economic plans.

Since the expansion of industrial co-operation between developing and socialist countries is a relatively new phenomenon in international economic relations, it is worth considering some of its features which are specific to this type of co-operation. The most important feature of industrial co-operation between socialist and developing countries stems from the system of public ownership and the centralized organization of industry in socialist countries. Given the enhancement of industrial co-operation with developing countries, it implies the following:

- The stability of the economic conditions in socialist countries ensures to a large measure that national contacts in the domain of industrial

co-operation will not be severed (or reduced in any way) owing to a serious deterioration of the world economic situation;

- The system of central economic planning permits an extensive concentration of the inputs of specific industrial sectors on the implementation of mutually agreed tasks, which is conducive, inter alia, to the harmonization of industrial co-operation;
- The high rate of economic growth in the socialist countries guarantees sales on domestic markets, and it is conducive to imports within the framework of industrial co-operation;
- The considerable demand for a relatively wide range of semi-products or components for the assembly of finished products, linked with a high growth rate, creates dynamic conditions for complementarity in the domain of industrial co-operation;
- The nationalization of the economy, which makes enterprises heavily dependent upon the policy pursued by centralized administration, enables those enterprises to obtain extensive economic and technical assistance from the country's economic and institutional infrastructure;
- For understandable institutional reasons, socialist countries show considerable readiness, and perhaps even greater skill, in establishing industrial co-operation with state-owned economic units in developing countries, although this does not exclude the possibility of co-operation with private enterprises.

Closely linked with the character of the economies of socialist countries is another feature of industrial co-operation. Their main partner in co-operation is the state-owned sector in the economies of developing countries. The expansion and strengthening of the state sector, as historical experience shows, provides these countries with an effective instrument in tackling the main economic tasks and protecting the emerging national economy from unfavourable external influences. The state sector allows the use of comprehensive planning elements and, most important of all, its development

meets the interests, not of particular classes and strata, but of the bulk of the population. This warrants the conclusion that in conditions specific to the third world, development of the public sector is a key social and economic prerequisite for the successful national development of the former colonial and dependent countries.

A salient feature of industrial co-operation between developing countries and members of the Council for Mutual Economic Assistance (CMEA) is concentration on key industrial projects which, in many countries, form the basis of the modern industrial sector and permit the gradual transition to a large-scale industrial production. Concentration on specific sectors tends to quicken the rate of industrial growth and makes co-operation more effective because the establishment of groups of related major enterprises in key sectors influences several areas of the national economy simultaneously. This makes it possible to tackle important national economic problems with minimum external assistance and maximum use of internal resources, an approach that is in line with the concept of self-reliance at the national and collective levels.

Industrial co-operation between the socialist and developing countries is comprehensive in character. It is an integral part of the system of relations which comprise project design and research, the supply of equipment, materials, spare parts and components, assistance in the installation and maintenance of the equipment, the organization of production, and the training of local personnel, as well as geological prospecting and exploration. Industry occupies the leading place in this system of relations accounting for 70 per cent (including energetics) of the total volume of the economic and technical assistance provided by the CMEA countries to the developing states.

Co-operation between developing states and some of the CMEA countries has recently revealed an increasingly pronounced trend towards assisting, along with the construction of individual industrial enterprises and industrial infrastructure projects, in the building of large sectoral, and agro-industrial

complexes. Given the further deepening of expansion of relations, this can lead to co-operation in creating a rational structure for the whole national economy of the partner country. Co-operation in the construction of industrial complexes introduces elements of comprehensive planning into the developing country's economy; it strengthens these elements and helps offset any imbalances that arise. When the development of a number of industries is coordinated within a complex, more effective use can be made of capital investments, production capacities, and raw and other materials from the standpoint of the national economy as a whole. Industrial complexes stimulate specialization and co-operation within the national economy, which is not the case with the construction of large individual enterprises which tend to have "vertical" links with foreign firms that have taken part in their construction. Moreover, industrial complexes are able to assimilate better foreign know-how and expertise and can themselves pursue research, design and development activities. If, on the other hand, co-operation is confined to a single branch, hypertrophy of certain branches may result in a one-sided specialization in the international division of labour.

The expanding industrial co-operation between developing and socialist countries and a gradual accumulation of experience has necessarily given rise to the question of how to develop co-operation on a sound basis, ensuring mutual benefits and with full account being taken of endowments and structural implications.

Though the elaboration of a long-term strategy of co-operation has now started, certain principles and criteria constituted guidelines or a framework for industrial co-operation in earlier stages. These general principles and criteria are economically and politically motivated and prescribe, for example:

- Exclusion of exploitations from international economic relations;
- Equality of partners, the avoidance of one-sided economic dependence, and the exclusion of intervention into the partner's affairs;

- Support for countries fighting for their economic and industrial independence;
- Full respect for national sovereignty over the natural and labour resources, and support for those governments intending to achieve national sovereignty;
- Priority for co-operation with, and assistance to, the state and collective sectors, wherever possible;
- Assistance, according to the realistic capacities, to the development of heavy industry as the backbone of independent development.

These principles are commonly shared by the socialist countries and are in full consonance with the demand for a new international economic order. Nevertheless and obviously enough, they cannot make up, but only guide, a concrete co-operation policy, which may have different forms in different socialist countries, nor can it mark out concrete directions, fields and proportions of co-operation strategy.

By their very nature and aim, these principles provide a general framework for the concrete co-operation policy which is to be elaborated by each country concerned in detailed terms and according to its endowments. However, due consideration is also taken of specific problems, exceptional cases and possible contradictions arising in the practice of co-operation.

For instance, the principle of assistance to the development of manufacturing industries is an obvious stand that has been correctly adopted against the colonialist international division of labour. However, it leaves some questions open: what sort of assistance is to be given, and, particularly, what type of industrialization, promoting thereby a mutually advantageous division of labour, is to be developed? These questions again may call for somewhat different answers in individual cases, reflecting the industrial structure and the nature of assistance capacities.

Since industrial co-operation between developing and socialist countries does not develop as an abstract scheme, but as a real process, it is influenced by many factors inherent in the conditions of both socialist and developing countries, and not least in the circumstances prevailing in the world economy of the 1970s. These factors may play either a positive or negative role, but their influence cannot be underestimated.

The steady and planned development of the socialist countries' economies, the substantial state-owned sector in the economies of many of the developing countries, the elaboration, and ever more successful fulfilment, of various economic plans and programmes in these countries - all these are favourable factors in terms of the development of permanent long-term industrial co-operation, co-ordinated with the prospective strategic trends in economic policies in developing countries. The substantial factor is that the industrial, scientific and technological potential of East European socialist countries permits participation in all forms of industrial co-operation - from designing and providing technical assistance to setting up complete plants on a turn-key basis, establishing joint production units with deliveries of equipment and technology, as well as arranging co-operative production to meet the mutual requirements and exports to third countries. In this connexion, one should also mention the financial soundness of socialist countries, since throughout the whole history of relations with developing countries no socialist partner has gone bankrupt.

Another influential factor is that in many cases the existing structures are complementary, while industrial co-operation provides diversification of the present economic relations and their enrichment in structure and quantity. The current complementarity is based mostly on the system of inter-sectoral linkage, and it is being diversified through the growth of intra-sector links between the national economic complexes, which constitutes industrial co-operation in its most advanced form. The fact that, in many developing countries, the share of the industrial sector is growing favours the expansion of relations based on specialization and complementarity. Ultimately it accelerates the involvement of the countries' economies in the most dynamic and promising forms of the international division of labour and the respective formation of vertical industrial-cum-economic structures.

Chapter II

ORGANIZATIONAL AND INSTITUTIONAL STRUCTURE FOR INDUSTRIAL CO-OPERATION

The development of industrial co-operation between developing and socialist countries has drawn increased attention to the respective organizational forms and institutions for co-operation. The latter constitute a reliable link between trade, economic, scientific and technical co-operation as well as the elements of co-ordinating the partners' economic development plans. Both sides are beginning to regard their relations as a comprehensive process, the components of which are interlinked and interdependent. This approach calls for an improvement of existing, and the creation of new, organizational forms of co-operation.

In general, the whole structure of industrial co-operation between socialist and developing countries is based on combining bilateral and multilateral aspects of co-operation. Historically, bilateral industrial co-operation is the first organizational form of co-operation. At the same time, economic and technical factors which are active in the modern world economy enhance the role of multilateral arrangements between partners from the two groups of countries. It seems that over a comparatively long period of time bilateral and multilateral co-operation schemes would develop in parallel, with the more rapid growth of the latter taking place not at the expense of bilateral connexions, but as a result of the extending of multilateral schemes to new projects, areas and types of co-operation. The combination of bi- and multilateral relations ensures maximum use of all the reserves of international co-operation, offering the developing countries more effective control over foreign economic links so as to weaken the negative factors operating outside their national economies and to strike an optimal balance between various forms of co-operation proceeding from the concrete conditions of a particular country or group of countries.

Multilateral mechanisms for co-operation

Multilateral co-operation between the developing countries and the socialist countries of Eastern Europe started progressing at the beginning of the 1970s, along with the accumulation by both parties of relevant experience in this field. Socialist countries have been acquiring the experience of multilateral co-operation in the course of the implementation of the Comprehensive Programme for Socialist Economic Integration. This experience has to a certain extent also benefited the development of overall multilateral co-operation between developing and socialist countries.

In respect of multilateral industrial co-operation between the two groups of countries, it should be noted that it cannot be developed by applying the instruments of multilateral relations that have been evolved in market economies. Nor can such co-operation take shape all of its own; the specific features of the social, economic and political set-up in the two groups of countries and their position in the world economy prompt the objective need to form a special institutional structure for this purpose. To achieve these goals, the two sides need to carry out co-ordinated and purposeful measures to adjust their economies to large-scale multilateral actions and to improve the organizational and legal frameworks of co-operation. An important part in the process would be partial co-ordination of the national economic plans between the partners in relation to problems of mutual concern. This co-ordination could cover the identification of areas of multilateral co-operation, identification of opportunities for joint projects in developing countries and the identification of promising areas of industrial co-operation and specialization.

The socialist countries have long been applying elements of a multilateral approach to their industrial co-operation with the developing states. The most widespread form has been the co-operation of organizations from two or more socialist countries in the construction of a particular industrial project in a developing country. By the mid-1970s, organizations from different CMEA countries were co-operating in the construction of 30 projects in Egypt, 12 in Iraq, 13 in India, 15 in Guinea and several

dozen enterprises in other developing countries.^{1/} But multilateral links were usually suspended once the projects were finished.

The situation, however, has changed substantially as the international socialist division of labour has been deepening, and more especially after the Comprehensive Programme of Socialist Economic Integration was launched. Concerted development of the socialist community by co-ordinating national economic plans, broad interstate specialisation and co-operation, and joint efforts in building up the production and techno-scientific potential have created a basis for multilateral foreign economic activity in relations with developing countries. It should be stressed that the above circumstances have created conditions for maintaining multilateral relations on a long-term basis and for spreading them increasingly to the spheres of production, science and technology.

Multilateral relations still occupy a relatively modest place in the system of industrial co-operation between the CMEA countries and developing states, but judging from present trends, their role will increase. It appears that a variety of parallel multilateral co-operation forms are now in existence between the two groups of countries. Some of them are based predominantly on contracts of a temporary, short-term character, while others presuppose long-term arrangements on co-operation with several CMEA member countries, or the CMEA as a whole. It can be said that multilateral co-operation at present is shaped in the following forms:

- (a) Co-operation of organizations of two or more socialist countries in rendering economic and technical assistance to developing countries;
- (b) Joint actions by organizations of socialist countries and developing countries in the markets of third countries;
- (c) Establishment of special multilateral funds by CMEA member countries with a view to stimulating trade, economic, technical and scientific co-operation with developing countries;
- (d) Arrangements between international economic organizations of socialist countries and organizations and/or enterprises of developing countries;
- (e) Agreements on multilateral co-operation between the Council for Mutual Economic Assistance and the government of a developing non-member country.

1/ IBEC Information Bulletin, 1975, No. 18, pp. 9-10.

Since the socialist countries of Eastern Europe have already established adequate organizational prerequisites for multilateral co-operation within the framework of the CMEA, which includes Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania, the USSR as well as Mongolia, Cuba and Viet Nam, the various forms of multilateral co-operation between CMEA and non-member countries take on particular interest.

The terms governing co-operation between non-member states and the CMEA are defined by the means of special agreements. Article XII of the CMEA Charter enables the Council to establish and maintain relations with various countries and international organizations, while the character and form of these relations is determined by the CMEA subject to mutual understanding.

Chronologically, the earliest form of co-operation with non-member countries was the latter's participation in the work of the CMEA bodies by sending observers. Observer status offers these countries an opportunity to watch the activities of the CMEA and its bodies, to contribute to the development of co-operation with member countries on a bilateral basis, and to exchange economic information. Some developing countries (such as Angola, Laos and Ethiopia) have availed themselves of this form of multilateral relations and attended the sessions of the CMEA.

Effective forms of promoting industrial co-operation are agreements on the participation of a non-member in the work of the CMEA bodies. Such an agreement was concluded between Yugoslavia and the CMEA in 1964. Yugoslavia now takes part in the work of 20 CMEA bodies covering all major industries (ferrous and non-ferrous metallurgy, engineering, oil, gas, the chemical industry, electronics, power engineering, etc.) As of the end of 1975, Yugoslavia took part in ten multilateral agreements on specialization and co-operation among CMEA member countries.

The 1970s saw the emergence of a new form of multilateral relationship, namely agreements on co-operation between CMEA and a non-member country. This involved the creation of Co-operation Commissions which provided an economic mechanism for realizing co-operation. The first agreement of this kind was signed between the CMEA and Finland in 1973.

That experience was then used in relations with developing countries. In July 1975, a co-operation agreement was signed between the CMEA and

the Republic of Iraq, and in August of that year a similar agreement was signed with Mexico. A study of these agreements reveals that in the first case they were to a large extent the result of established diversified trade and production relations between the CMEA countries and Iraq which were considerable in volume,^{1/} while in the second case they were prompted by the mutual desire to create conditions for the further improvement, expansion and diversification of economic, scientific and technical co-operation between the CMEA countries and Mexico on bi- and multilateral bases.

The agreement with Iraq stresses that its aim is the development of multilateral co-operation between the partners in various fields of economy, science and technology, with the main role played by the Joint Commission of the representatives of the CMEA countries and Iraq.^{2/} The Joint Commission makes recommendations and decisions by agreement with the interested CMEA countries and Iraq, which are then implemented through the signing of multilateral and bilateral agreements between them, their governmental bodies, and organizations. The procedure adopted by the Joint Commission is designed to make maximum use of the opportunities of multilateral co-operation. Towards this end maintenance of contacts is envisaged with the representatives of the CMEA bodies and international organizations of the socialist countries which have contractual ties with the CMEA by allowing these representatives to attend the meetings of the Joint Commission at its invitation. Likewise, by mutual agreement, the Joint Commission may be attended by countries which take part in the work of the CMEA bodies.

By mid-1975, more than 200 industrial enterprises and other projects in Iraq, constituting an important part of the public sector, had been built or were in the process of construction with the participation of socialist countries.

It is notable that in formulating the functions of the Commission, the agreement names priority areas in which the possibility of co-operation

1/ Economic Co-operation of the CMEA Countries, 1975, No. 4, pp. 102-103.

2/ Ibid.

should be studied. These are the oil and gas industry, chemicals (including petrochemicals), agriculture and foreign trade. The listing of areas in which research is being conducted for further expansion of co-operation shows that the sides have acquired a relatively good knowledge of each other's economic realities in the course of bilateral co-operation, and that they expect the largest benefits to accrue from the transition to multilateral relations in the areas mentioned. Working groups have been set up within the Commission's framework to implement concrete projects and develop specific branches of industry (for example for geological prospecting, commercial drilling and equipping of oil-fields).

The agreement between the CMEA and Mexico has some specific features stemming, among other things, from the fact that the links between the socialist countries of Europe and Mexico have not yet assumed a wide scope, although both countries have displayed interest in expanding them. It, therefore, emphasizes the need to create conditions for the improvement and expansion of technical co-operation between the CMEA countries and Mexico on both a bilateral and multilateral basis.

It points out that the main goal of the agreements is to establish and promote multilateral co-operation. The tasks of the Commission are also formulated in a somewhat different manner. The Commission is to study and analyze the possibilities of intensifying multilateral co-operation in such fields as the use of new technology, the expansion of foreign trade, and financial questions, as well as in those fields in which joint enterprises can be set up, notably in industry, agriculture, mining and marine transport.

At the 87th session of the CMEA Executive Committee (September-October 1978), the representatives of interested CMEA member countries, in accordance with the request of Ethiopia, agreed upon the directions of their multilateral co-operation with that country. They also exchanged information on the economic and technical assistance rendered by them to Angola in the development of farming. One can now witness the emergence of a new form of multilateral co-operation between CMEA member countries and a developing state. No formal agreement on multilateral co-operation is concluded in these cases, but the co-ordination of the actions of

CMEA countries interested in rendering assistance to developing states is achieved by using the existing mechanism of co-operation within the organizational framework of the CMEA.

Certain opportunities for the expansion of multilateral industrial co-operation between the CMEA and the developing countries are opening up as industrial co-operation is taking place within regional and subregional organizations of the third world countries. Assistance in organizing regional industrial projects helps to increase the volume of supplies of equipment, units and parts, and some types of materials to the developing countries. Large enterprises of this kind are able to use more modern technology which tends to lower production costs and improve the quality of projects. The socialist countries can purchase part of their products. Finally, the concentration of efforts to build large regional projects rather than construct several small enterprises geared to the markets of a single country saves resources both of the socialist and the developing countries. The socialist states have assisted the Andean countries in creating several regional enterprises. Romania and Czechoslovakia, for instance, have helped build mechanical engineering plants in Peru, much of whose output is expected to be exported to other states of the Andean Group.

There are prospects for expanded relations between the CMEA countries and the multilateral research and design organizations set up in the field of industry in Asia, Africa and Latin America. These prospects are gradually being realized. For instance, the Hungarian firm KGV is an associate member of the Latin American Iron and Steel Institute, which undertakes research in the co-ordination of the development of iron and steel industry in that region. Since 1970, official relations have been established between the CMEA and the Industrial Development Centre for Arab States (IDCAS). The CMEA has sent representatives to two sessions of the Conference on Industrial Development of the Arab States, and members of the IDCAS Secretariat attended the meetings of the CMEA bodies dealing with ferrous metallurgy and the chemical industry.

Bilateral mechanisms for co-operation

As previously mentioned, bilateral co-operation was the initial organisational form of co-operation between developing and socialist countries. There is no doubt that its significance has since expanded despite the emergence of multilateral forms of co-operation.

Bilateral organizational and legal forms of co-operation promote the mutual adjustment of national economic mechanisms in countries with different levels of economic development, and they facilitate the comprehensive utilization of internal and external resources, thus making co-operation more effective and mutually beneficial. At the same time, this mechanism renders it possible to take into account the specific interests of the developing countries in their trade and economic relations with the socialist countries and to make these relations an effective instrument in tackling key economic problems facing the developing countries, particularly the building of modern national industry.

At present, bilateral economic co-operation between socialist and developing countries is largely based on inter-governmental agreements on economic, scientific and technical co-operation. The number of these agreements is growing rapidly. The Soviet Union, for example, had economic and technical co-operation agreements with only two developing countries in 1954-55, with 51 countries in 1975, and 62 countries of the third world in 1977. In 1962, the CMEA countries had inter-governmental agreements on economic, scientific and technological co-operation with 34 developing countries, while today they have such agreements with 78 Asian, African and Latin American countries.^{1/}

For the planned economies of the socialist countries, where the State is the subject of economic activity, long-term intergovernmental agreements offer the most acceptable form of co-operation. The determining factor in the foreign economic ties of CMEA countries is the state monopoly of foreign

1/ L. Z. Zevin, Economic Co-operation of Socialist and Developing Countries: New Trends, Moscow, 1976, p. 44. Expansion of Trade and Economic Relations between Developing Countries and Socialist Countries of Eastern Europe: Trends, Prospects and the Role of UNCTAD. UNCTAD Seminar on Economic Co-operation between Socialist and Developing Countries, Budapest, March 1978, p. 6.

trade. The forms and methods of its implementation in different CMEA countries change at various stages of development. In the USSR, for example, its main features are, first, direct control of foreign trade and other foreign links through special bodies, and secondly, the establishment of national organizations empowered to conduct trade and other operations in foreign markets. The Government determines the range and character of their activities, as well as their relations with suppliers, producers and users of goods and services exported from and imported into the USSR.

For the developing countries, the system of intergovernmental agreements takes on added importance because they set the pace for the restructuring process; they contribute to the introduction of planning elements in the national economies and make for the achievement of the best balance between the use of the internal and external development factors. The role of intergovernmental agreements is also enhanced by the fact that key co-operation projects are normally created in the state sector in the developing countries. Within the framework of intergovernmental agreements, it is possible to tie in industrial co-operation measures not only with current but also with long-term plans of each of the partners and put industrial co-operation on a stable and long-term basis.

The difference between the socialist and developing states as regards the character of the economy, the level of development, the forms of ownership, and the system of national economic management calls for joint efforts in developing a set of measures, especially at the intergovernmental level, to create favourable conditions for the development of mutually beneficial forms of economic relations and the shaping of a corresponding mechanism to implement them. Bilateral intergovernmental agreements on economic, scientific and technical co-operation are key elements in this mechanism, which enables the developing countries to use international co-operation to tackle vital national tasks, to tap their domestic and external reserves of economic growth, and to co-ordinate the flow of technology from abroad, organizational and managerial expertise, and scientific knowledge.

Bilateral intergovernmental agreements on economic, scientific and technical co-operation are concluded by the state bodies of the socialist

countries with the corresponding government bodies in the third world countries. In their preambles it is usually stated that the agreements are based upon the principles of equality, mutual benefit, respect for sovereignty and mutual non-interference. This is followed by an enumeration of the spheres of economic and technical co-operation (industry, agriculture, transport, etc.) The specific lists of projects and enterprises covered by co-operation, as well as the volume of financial assistance are usually determined at a later stage, when the results of feasibility studies are discussed. The agreements usually envisage the fulfilment by the organizations of the socialist countries of design work, supply of equipment and materials (except those that can be produced locally) and technical assistance in the construction and installation of equipment as well as the provision of experts and skilled workers to co-operation projects, the training of personnel locally as well as at educational institutions and enterprises in the socialist countries. Intergovernmental agreements may also include articles on terms of payment for technical and economic assistance and provisions on methods of realizing the co-operation measures envisaged.

Along with intergovernmental agreements on economic and technical co-operation of a general nature, the CMEA countries also sign agreements on assistance in the realization of individual large projects and on the development of certain industrial sectors. For example, in 1975 the USSR and Nigeria signed an intergovernmental agreement on Soviet assistance in the construction of a steel plant in Ajaokuta. Under the agreement the Soviet Union renders technical assistance in the construction of the plant, the preparation of the draft contract and working drawings, specifications for the supply of equipment, as well as the completion of all construction work at the site of the future plant; it also supplies the equipment and materials, and supervises the assembly and installation of the equipment and trains Nigerian personnel in both Nigeria and the USSR. There are also effective intergovernmental agreements with some other developing countries on the provision of experts to render technical services to co-operation projects and on co-operation in such aspects as the training of personnel, geological prospecting, and designing.

The general guidelines of the intergovernmental agreements are usually established in contracts signed between trade and industrial associations of

the socialist countries with corresponding organizations in the partner countries. In the USSR the organizations in charge of direct contacts with foreign customers on matters relating to the transfer of Soviet machinery and technology are called All-Union Associations. Thus, one of these associations supplies equipment for drilling, hoisting and transportation, iron-smelting, steel-making, foundry, rolling, oil production, mining and prospecting operation. Another Association renders technical assistance in the construction of iron and steel plants. The work involved in the development of the Northern Rumaila oilfield in Iraq, for instance, was carried out under a contract with the Soviet Union's Machinexport. The major steel plants in India (Bhilai and Bokaro), the metallurgical plant in Isfahan, which produces 90 per cent of Iran's steel output, and the complexes in Algeria, Nigeria and Turkey were all built with Soviet assistance under contracts with Tiazhpromexport.^{1/} These associations have the status of a juridical person and are liable to their partners in the USSR and abroad.

In the European CMEA countries, contracts on particular projects in pursuance of intergovernmental agreements on economic and technical cooperation are also as a rule concluded by foreign trade enterprises (FTEs) (as in Czechoslovakia, the GDR and Hungary), associations (Poland) and firms (Romania). The links which these organizations have with national industrial enterprises vary from one CMEA country to another. In Czechoslovakia, for example, a number of FTEs are included within large production entities; in the GDR, joint activity between industrial enterprises and the FTE is co-ordinated by special agreements. Whereas in Hungary both forms exist, in Romania most foreign trading firms are under sectoral ministries, while the Ministry for Foreign Trade is vested with greater responsibility for the country's foreign trade policy. In most cases, the foreign trade organizations are specialized, dealing with technical and economic assistance in certain branches of industry and agriculture. For example, Czechoslovakia's Skodaexport and the GDR's Investexport designed and supplied rolling mills for metallurgical plants in Iran, Algeria and Turkey directly or under subcontracts; Skodaexport also dealt with assistance in the construction of power projects.

Contracts on specific projects are signed either with respective ministries or with some other authorized government organization or directly

^{1/} Foreign Trade, 1977, No. 8, p. 19.

with a firm in the partner country. For example, a contract for the turn-key construction of a 6 million ton per year oil refinery in Baniyas (Syria) was signed by the Romanian firm Industrialexport and the Ministry of Oil and Mineral Resources of Syria in 1974. A contract for the supply and assembly of rice dryers and rice mills to Iraq was recently signed between the GDR foreign trade enterprise Transportmaschinen and the government grain organization of Iraq. A contract for the building of a hydrogen peroxide plant in Turkey was signed between the Soviet Neftekhimexport and the Turkish company Etibank.

Agreements at the firm level are most commonly concluded with enterprises in the state sector, but the foreign trade organizations of the socialist countries also co-operate with private companies in developing countries, subject to the concurrence of their Governments.

The expanded volume of trade and industrial co-operation in the 1970s produced a new organizational form: intergovernmental commissions for economic, scientific and technical co-operation. Today these commissions play an important role in stimulating various forms of economic, scientific and technical contacts, including industrial co-operation, between the CMEA and the developing countries. They are set up by socialist and developing states on the basis of intergovernmental agreements and are headed by responsible officials (usually deputy heads of the Government or ministers of the countries concerned). Joint commissions analyze the state of co-operation between the partner countries, study the main problems of its development, work out measures to be taken by both sides to stimulate trade, economic, production and scientific and technical links, co-ordinate the actions of the partner countries and deal with practical matters arising in the course of co-operation.

In some cases joint intergovernmental commissions are set up for co-operation in individual sectors of industry, although such commissions are still few in number.^{1/} In order to work out concrete co-operation problems in detail, the commissions form working groups, sections and sub-commissions, whose members include major experts from planning, foreign trade and sectoral industrial bodies. For example, the industrial co-operation working group of the joint GDR-Syria commission deals with co-operation in electric power engineering and the construction of cement plants in Syria. This type of structure makes

^{1/} Sometimes, as in Hungary for instance, these commissions constitute the subsidiary bodies to the Intergovernmental Committees.

it possible to take into account more accurately the interests of both sides and to agree on measures at the national and sectoral levels, and it tends to create a climate favourable to carrying out concrete co-operation measures.

There is another area in which the management and planning of economic links between the CMEA and developing countries can be streamlined by means of direct contacts at various levels between ministries, departments and other government bodies, production, scientific and technical and trade organizations of the partner countries.

Co-operation at the ministerial and departmental level usually proceeds on the basis of individual agreements concluded under an intergovernmental agreement on co-operation between the partner countries. Thus, the German Democratic Republic Ministry of Electric Power Engineering and Electronics and the State Electrical Company of Syria concluded an agreement on measures aimed at developing long-term co-operation in the electrification of the Syrian Arab Republic.

In the Soviet Union industrial ministries are now responsible not only for the building of the corresponding enterprises in the developing countries under intergovernmental agreements, but also for organizing industrial co-operation, the supply of spare parts and maintenance of machinery and equipment delivered abroad. In discharging these duties, the ministries can sign inter-departmental agreements with departments in other countries. As the concentration of production is proceeding apace in the Soviet Union, all-union and republican industrial associations are set up which have the right to sign bilateral and multilateral agreements on specialization and co-operation with foreign enterprises. Similar developments are taking place in the other CMEA countries.

Some headway has been made in co-operation between the industrial enterprises of the socialist and developing countries. Major industrial enterprises of the CMEA countries (in the USSR these are usually the spearhead enterprises of particular industrial sectors) assist corresponding enterprises in the developing countries in organizing production, launching technological processes, supplying components, fittings and helping to train personnel. Co-operation with Indian enterprises over many years has provided good examples in this respect. They include the co-operation between the Soviet Uralmash plant and the heavy machine building plant in Ranchi, the

Lenin Komsomol Machine Building Plant (Ukraine) and the mining equipment plant in Durgapur, the Leningrad amalgamation Electrosila and the heavy electrical equipment plant in Hardwar, the Lvovpribor plant in the USSR and the precision instruments plant in Kota. All these enterprises have been built with Soviet assistance, with co-operation continuing now after these projects have been put into operation.

A number of agreements exist between scientific, design and research organizations of the CMEA and the developing states. For example, several years ago an agreement was signed between the Indian firm Mekon, a branch of the Steel Board of India, and the Soviet Gipromez Institute on co-operation in designing a metallurgical plant in Bokaro and on consultations during its construction.^{1/} In view of the growing interest of the developing countries in receiving modern technology, direct contacts between research and design organizations of the socialist and developing states may become an effective channel for expanding industrial co-operation.

With the volume of co-operation growing, the number of agreements signed at different levels is increasing rapidly. Whereas in 1974 the CMEA and developing countries signed 180 various agreements on economic, scientific and technical co-operation, the number of such agreements in 1976 amounted to 260.^{2/}

Relations at the government level have been the key factor in shaping the economic mechanism of industrial co-operation between the CMEA and the developing countries. Intergovernmental relations are likely to preserve this role in the future, although experience has shown (in Hungary, for example) that industrial co-operation may develop successfully at the enterprise or association level.

The problem therefore is to strike in each case an optimal balance between various forms of co-operation and the various legal and organizational levels from which it proceeds.

In the CMEA countries this problem is being solved in different ways depending on the peculiarities of the institutional structure for economic control

1/ Economic and Political Weekly, New Delhi, 1977, No. 20, p. 8.

2/ Foreign Trade, 1977, No. 4, p. 6.

and foreign economic relations. One can refer to a number of examples illustrating the approach to this problem in Bulgaria, Hungary and Poland.

Bulgaria

In this country, the keystone to bilateral industrial co-operation is the Commission for Economic Scientific and Technological Co-operation (KINTS). This is one of the bodies of the Council of Ministers headed by the Deputy Prime Minister. Its members are the ministers - heads of the main sectoral ministries and establishments such as the State Planning Committee, the Ministry of Finance, the Ministry of Foreign Trade, the Bulgarian National Bank, the Committee for Science and Technical Progress, etc. The Commission has a permanent Secretariat. KINTS is involved in the supervision, co-ordination and control of Bulgarian policy in the field of foreign economic, scientific and technical co-operation with the other countries and international organizations. It makes decisions that are binding on the ministries, organizations, and other authorities carrying out foreign economic activities.

The Commission has the following specific rights and commitments:

- To elaborate on the matters pertaining to economic, scientific and technical co-operation and to prepare documents and materials for top-level meetings;
- To submit to the Council of Ministers reports on the results of the CMEA sessions and its Executive Committee with proposals for decisions of the Council of Ministers and for the discharge of these decisions;
- To consider the position of the Bulgarian delegations in different international organizations, bilateral commissions and committees for economic, scientific and technical co-operation;
- To supervise and co-ordinate the activities of the ministries and the other establishments as regards technical assistance to the developing countries;
- To make arrangements for surveying and examining the results of economic, scientific and technical co-operation within the framework of international organizations.

The ministries, the establishments and the organizations involved in foreign economic activities in their different forms are obliged to coordinate their activities with KINTS.

Bilateral economic relations with different developing countries are regulated through intergovernmental agreements and other arrangements, signed by respective ministries and contracting parties. As a rule such agreements on the part of Bulgaria are signed by the Minister of Foreign Trade, but occasionally may be signed by other top officials such as the Minister of Mechanical Engineering, the Minister of Agriculture and Food Industry, the Minister of Chemical Industry, and the Minister of Metallurgy and Mineral Resources.

Over the past decade, a suitable solution for the development of the economic relations and industrial co-operation has been found through the establishment of bilateral joint committees (more than 20 in number) for economic, scientific and technical co-operation with the developing countries - the main partners being from Asia, Africa and Latin America. Co-chairmen of these bilateral joint committees are usually ministers (including the deputy-chairmen), which permits the discharge of the commitments undertaken in the most reliable and responsible manner by both the Government of Bulgaria and the Government of the respective developing country.

These intergovernmental committees make a comprehensive analysis of the situation of the economic relations, the implementation of the different arrangements, and commit the various economic organisations and enterprises to establish contacts, to investigate specific possibilities for co-operation, to agree on setting up economic relations, and to sign industrial co-operation contracts. They thus create the necessary specific facilities and guarantees for the most efficient, timely and proper guidance for the implementation of the intergovernmental agreements with respective developing countries.

Such intergovernmental committees for economic, scientific and technical co-operation are already established with Algeria, Angola, Congo, Cyprus, Ethiopia, Guinea, India, Iran, Iraq, Libya, Morocco, Nigeria, Peru, Syria, Tanzania, Tunisia, Turkey, Democratic Yemen and other developing countries. The Committees exert substantial influence on the efficient and profitable

development of bilateral co-operation between Bulgaria and these developing countries.

How do the joint intergovernmental committees work in fulfilling the long-term agreements? What is the procedure for elaborating and implementing the specific contracts?

The activities of the bilateral committees for economic, scientific and technical co-operation are defined by the intergovernmental long-term agreements, in which the fields of eventual co-operation, the forms which may be used, and the objectives are established. In practice, these agreements are prepared jointly with the representatives of a developing country. Each side works out the draft and sends it to its partner for consideration. At a later stage, these drafts are discussed by the delegations of the two countries, which work out a mutually acceptable text, whereafter the agreement is submitted for signature. It has to be ratified by the parliaments or the governments of the two countries, depending on current practice.

At the annual sessions of the bilateral committees for economic, scientific and technical co-operation, those fields and specific projects are identified, the realization of which may be agreed upon by the economic organizations and companies of the two countries. In order to speed up the implementation of the specific items, a schedule is usually fixed for concluding the contacts and agreeing upon the outlined co-operation.

In order to attain more efficiency in the work of the bilateral committees and a better realization of the intended co-operation, the regular sessions of the committee review the implementation of the protocol adopted by the previous sessions. Furthermore, some committees have established a practice of holding periodic inter-session meetings (every six to seven months) between representatives of the delegations of the two countries (two to four persons on each side) at which the fulfilment of the arrangements made at the previous session of the bilateral committee is reviewed. This enables both sides to exercise constant control. The bilateral committee is entitled to ask the economic organizations and companies to report on the implementation of the joint projects entrusted to them. Each partner is entitled to check the fulfilment of the obligations of a given economic organization on its territory.

On the basis of the arrangements adopted, the economic organizations of Bulgaria and the partner country establish contact and commence discussions on the specific projects for industrial co-operation. Usually the Bulgarian economic organizations and companies carry out general investigations of the identified projects either on the spot, or on the basis of relevant data provided by the respective companies in the partner country. The latter is usually in answer to questions raised by the Bulgarian organization. On the one hand, these preliminary studies enable the partners to establish the practicability of the intended co-operation and, on the other hand, a foundation may be laid for agreeing on the general conditions of co-operation. In a number of cases, these studies protect the developing countries from hasty and unprofitable projects, and from unnecessary foreign currency expenses.

Bulgarian delegations to the joint committees have a permanent composition which comprises deputy ministers of the main economic ministries, directors general (or their assistants) of economic corporations and foreign trade organizations, experts on planning, financing, banking and credit matters, science and technology, civil engineering, staff training, establishing industrial co-operation and other forms of co-operation. The scope of activities of these and other Bulgarian economic organizations covers almost all branches of the economy. Similar economic corporations and complexes incorporate individual production and commercial enterprises and actually carry out all the production and marketing operations in a given economic sector.

Hungary

In Hungary responsibility for international co-operation rests with the Committee for International Economic Relations, which has government Ministers as its members and is presided over by one of the Deputy Prime Ministers. By virtue of its decree No. 42/1967, the Committee has regulated some of the questions of international co-operation and production co-operation, leaving much to the independent initiative of the companies. An Inter-ministerial Committee for Co-operation was set up under the guidance of the Minister of Foreign Trade, in which the National Planning Office, the National Committee for Technical Development, the Ministry of Metallurgy and Machine Industry, the Ministry of Finance and the Hungarian National Bank are also represented. The principal task of this Committee is to encourage initiatives,

to ensure co-ordination according to the national economic plan, and to provide general guidance. The National Committee for Technical Development, the National Planning Office and the ministries in charge of the different branches of the national economy work out the various forms of inter-firm co-operation.

In order to assist companies in exploring the possibilities for co-operation and make the necessary arrangements, a number of agencies have been set up, but their existence does not exclude other companies from taking the initiative on their own. These agencies are commissioned by Hungarian enterprises to seek partners for the solution of specific tasks, or they are commissioned by foreign companies to seek Hungarian enterprises, who can help in the establishment of contracts or provide consultancy services. Another important task is the organization of the "home background" since, because of the specialization established in Hungary, the involvement of several Hungarian enterprises often becomes necessary.

In Hungary, as well as in other socialist countries, the Government plays an important role in initiating and supporting industrial co-operation through international agreements for economic and industrial co-operation with individual developing countries. These agreements define the general principles for international economic relations, the particular fields of co-operation, and the measures needed from the governments in support of such activities.

It is advisable that such agreements include such items as the identification of projects of common interest, the exchange of technological information, licences and know-how, visits of technical and commercial experts to both countries to familiarize themselves with prevailing conditions, and the possible establishment of joint ventures in third countries. Recognition of the principle of mutual benefit and equitable treatment is an important issue in bilateral agreements, as well as the firm support for the sovereignty of the countries concerned.

The bilateral agreements between Hungary and the developing countries aim at the promotion of a mutually advantageous division of labour and endeavour to create a stable market for the products of the enterprises of both parties as well as a continuous supply of products important to any partner, thereby establishing a firm basis for the medium- and long-term economic plans in Hungary, strengthening the public sector and promoting the development of the planning system in the developing countries.

Some of these agreements provide for joint committees. These normally convene once or twice a year to review the implementation of the agreement and to take any measures needed to overcome difficulties facing the parties. The joint committees are chaired by high ranking government officials - sometimes deputy ministers - and all the interested institutions are represented in order to provide the necessary information and to execute the decisions as quickly as possible. The co-chairmen may decide on the creation of subcommittees, ad hoc groups or other subsidiary bodies entrusted with specific tasks closely related to the intergovernmental agreement.

The Hungarian Chamber of Commerce constitutes part of the institutional structure to promote industrial co-operation. The Chamber enters into agreements and regularly sends several delegations to the developing countries in order to explore the possibilities in the field of industrial co-operation, to promote existing initiatives and to make proposals for the establishment of new co-operation deals. Members of these delegations are mostly technical and commercial experts, who, thanks to their professional knowledge, are capable of solving such tasks. Government officials in charge of co-ordinating enterprise initiatives with national interests also participate in these delegations. At the same time, the Hungarian Chamber of Commerce is responsible for the reception of delegations from developing countries. For the latter, it organizes comprehensive programmes to acquaint specialists from the developing countries with the Hungarian industry, foreign trade, financial and planning systems, so as to be able to elaborate new proposals which promote the establishment of lasting co-operation between enterprises.

In order to promote industrial co-operation, the Chamber of Commerce provides other services to enterprises, such as the publication of various periodicals (Marketing in Hungary, New Hungarian Exporter, Hungarian Imports) in several languages, the elaboration of studies related to industrial co-operation, and the search and contacting of partners for co-operation, in which the framework supplied by UNIDO is also used.

In this connexion, mention should be made of the usefulness of sectoral meetings organized by the Chamber of Commerce together with UNIDO, such as that in the fields of instrument production in 1975, pharmaceuticals in 1976, and telecommunications in 1977, as well as the forum organized for the

Chairmen of Afro-Asian Chambers of Commerce in 1977. The latter meeting was attended by several leading executives of enterprises and institutions from Hungary and the developing countries, and provided an opportunity to launch more initiatives relating to industrial co-operation. UNIDO also promoted the meeting between the African and Asian Chambers of Commerce on the occasion of the 1978 Budapest International Fair. All these projects proved to be useful and contributed to the strengthening of industrial-economic relations between Hungary and the developing countries.

Poland

Over the past decade, economic co-operation between Poland and the developing countries has undergone an important, qualitative transformation. As the economic potential of Poland the developing countries has been increasing, various kinds of industrial, technical and scientific co-operation have been gaining in importance. The issue has become more complex, so that the simple declaration of intentions and general outlines and principles included in the trade and payment agreements proved insufficient. Thus, it became necessary to create a suitable institutional basis determining the scope and conditions of such co-operation. As in the other socialist countries, long-term intergovernmental agreements pertaining to industrial and technical co-operation are becoming the backbone of the whole system. As a rule, it is stated in the agreements that the contracting parties will:

- Grant the necessary facilities for the repatriation of invested capital, profits, interest and other payments;
- Permit the competent banking institutions of both countries to establish close financial co-operation;
- Determine that all current payments resulting from the execution of any project set up under this agreement shall be effected in accordance with the provisions of the trade agreement or payment agreement valid between the two contracting parties at the relevant time;
- Appoint a joint commission at governmental level to supervise the implementation of the agreement and to undertake relevant decisions in all matters connected with its realization;
- Determine the validity of the agreement and indicate for what periods the validity can be automatically prolonged.

In 1977 Poland was already co-operating with 20 developing countries on the basis of the bilateral, intergovernmental agreements on economic and technical co-operation.

The transformation of the economic relations from a simple turnover of traditional goods to multi-modal economic, industrial and technical co-operation between Poland and the developing countries has become a lasting process in bilateral co-operation. The growing volume and diversification of trade has resulted in different forms of industrial co-operation. Therefore, there is a tendency to treat economic relations between Poland and developing countries in a comprehensive manner, and it may be expected that long-term intergovernmental agreements on the development of diversified economic relations will play a still greater role in the future.

In order to secure proper implementation of intergovernmental agreements on trade as well as on economic, industrial and technical co-operation, joint commissions are established at the governmental level. The legal basis for the activity of these commissions is presented in the respective clauses of the agreements. In particular situations, joint commissions can be established as a result of separate negotiations. In the latter event, the commission's task is the supervision of the implementation of all agreements concluded between Poland and the said developing country. This is a new feature in treaty relations with the developing countries that has come about as a result of the need to co-ordinate and supervise co-operation in its various forms.

There are two kinds of joint commissions: Permanent Commission meeting regularly, once or twice a year; and ad hoc meetings held at the suggestion of one of the parties, as the need arises.

Typical tasks entrusted to a joint commission for economic, scientific and technical co-operation, intended to stimulate and co-ordinate different forms of co-operation, are as follows:

- Supervision of the implementation of agreements already concluded or to be concluded between the contracting parties, and undertaking the necessary measures in this respect;
- Examination of the possibilities of the development of economic, scientific and technical co-operation, and working out proper forms of co-operation in the said fields, including the establishment of joint ventures;

- Exchange of information and experience on economic, scientific and technical problems of mutual interest;
- Facilitating the development of financial and banking co-operation between the contracting parties within the framework of the laws and regulations in force in both countries;
- Dealing with other problems of economic, scientific and technical co-operation assigned to it by the two governments.

Permanent joint commissions act according to adopted rules, determining, among other things, the frequency of meetings, procedures for fixing the dates of the sessions, topics on the agenda and ways of decision-making.

When the need arises, the Chairmen of both parties in the commission may appoint permanent or ad hoc expert working groups. The permanent groups sometimes adopt the title of subcommittees, for instance, the Sub-Committee for Trade, for Industrial Co-operation, or for Mining. The expert groups work out the topics assigned to them by the Commission and present the results for its approval.

In the working group, Poland is represented by the co-ordinating ministry (e.g. the Ministry of Foreign Trade and Shipping) and, if necessary, by experts from other ministries concerned. Direct contacts between the ministries concerned and their foreign counterparts ensure quick and efficient fulfilment of the settlements after their approval by the joint commission, and contribute to the development of direct co-operation between the ministries of both countries. Minutes of the commission sessions are important inter-governmental treaty documents. They not only indicate the current status of co-operation in a given field, but they also record the decisions regarding its continuation as well as new fields, directions and forms of co-operation.

In the sphere of industrial co-operation, contacts are established not only on government, ministry or enterprise levels, but also between institutions and organizations which indirectly contribute to the economic development and promotion of the foreign trade. One such organization is the Polish Chamber of Foreign Trade. Promoting stronger links between Poland and foreign countries, it co-operates with chambers of industry and trade abroad, including those in the developing countries. Through this channel, it is possible to establish the commercial and industrial links and to bring into

contact the enterprises interested in various kinds of co-operation. The Polish Chamber of Foreign Trade co-ordinates, among other activities, the organization of fairs and exhibitions in Poland and the participation of the Polish foreign trade enterprises in such undertakings abroad. On the occasion of the international fairs and exhibitions in which Polish enterprises take part, the Chamber organizes various meetings, seminars and symposia, on the subjects that may attract the attention of investors from the developing countries. They are primarily concerned with those spheres of activity in which Poland may co-operate in the complete implementation of investment projects.

Another factor conducive to industrial co-operation is the establishment within the Polish Chamber of sections of foreign chambers, on reciprocal terms. Their objective is the investigation of the possible development of economic relations between Poland and the countries concerned and the most effective forms of support.

Furthermore, the Polish Chamber of Foreign Trade undertakes reciprocal economic missions with foreign chambers, consisting of representatives of commercial and economic circles interested in the co-operation. Programmes include such features as talks with managers from appropriate trade and industrial enterprises, plant visits, and demonstrations of production processes.

Chapter III

FINANCIAL ASPECTS OF INDUSTRIAL CO-OPERATION

Initially, industrial co-operation with developing countries was largely confined to assistance by the CMEA countries to the developing states in creating a modern national industry and accelerating the rate of economic growth. This trend is a long-term one and is still relevant today. The volume of economic and technical assistance provided by the CMEA countries to developing states is constantly growing, as is the volume of financial loans. Long-term development loans granted by CMEA countries to the developing states accounted for 5 billion roubles in 1965 to some 15 billion by the mid-1970s.^{1/} However, while expanding financial assistance, the socialist countries believe that accelerating the developing countries' industrial growth depends above all on the mobilization of their own domestic resources, the inflow of financial resources from abroad being a complementary factor.

As the volume of credits and technical assistance grows, the question of effective use of the means made available in the national economies of the recipient countries assumes special significance. The prerequisite for the effective use of the aid from the socialist states is the essence of this aid, which is marked by a comprehensive approach to the development of the national economy. Thus, the socialist countries, in co-operation with the recipients of credits, concentrate their efforts on the efficient use of the financial and material aid so as to ensure that external resources have a positive impact on economic performance.

The credits granted by socialist countries are not surplus capital which they seek to invest abroad. Further to performing an aid function, they are an effective tool in forming a new pattern of the international division of labour based on complementary economic structures in partner countries. This complementarity can be achieved through assistance in implementing large-scale projects in the extracting and processing industries whose products are intended not only to meet the needs of developing countries but also to be exported to donor countries. Obviously, this is in the interest of the

1/ CMEA Countries in the System of World Economic Ties, Moscow, 1978, p. 87.

developing countries themselves, since it helps to expand and diversify their industrial exports, in particular the exports of finished and semi-finished goods.

In this respect, grants are considered to be less effective in deepening the division of labour between the two groups of countries. This type of aid, with the exception of cases when it is needed to eliminate the aftermath of wars and natural disasters, is usually not effective enough, because the funds received are often invested in projects of short-term relevance and are not geared to the long-range tasks of the recipient country's economic growth. Therefore, grants occupy a secondary place in the practice of the socialist countries. Except in emergency cases, it is largely used in the sphere of education and health. Instances of grant-projects are the Soviet-built Polytechnic Institute in Bakhr-Dar, Ethiopia, the equipment for a hospital in Guinea, a maternity home in the Congo and some other projects. On the whole, about half of the educational facilities built in the developing countries with the assistance of the CMEA countries have been built as grants.^{1/} Grants are likely to continue this role in future.

At present, industrial co-operation between the socialist and developing countries is financed almost exclusively on a bilateral basis. For instance, up to 80 per cent of Bulgaria's industrial co-operation credits relate to the bilateral delivery of complete industrial plants, to the export of engineering outputs, etc. The credits are provided by the state and individual state-owned firms. The interest rate of the state loans as a rule varies from 2.5 to 3.5 per cent, and the firms' credits are short-term; their interest rate is higher than that of the state loans, but it is generally lower than the current interest rate on the international credit market.

It is worth mentioning that Bulgaria provides the implementation of the industrialization programmes of major economic importance. In this connexion, repayment of credits is mostly effected through the output of the production units built on credit. Some of these loans (though only rarely) also become joint stock of the industrial companies once established (e.g. in the fish-canning industry in Nigeria).

The stated financial and credit activities of Bulgaria have been intensified during the last decade and now they are even more concentrated

1/ Economic Co-operation of the CMEA Member Countries, 1977, No. 3, p. 67.

on the fulfilment of more lasting and more substantial contracts having a varied and complex economic, scientific and technical nature as regards its major and permanent partners. The socio-economic development plans of the country envisage expansion of these activities along with enlargement of the potentialities, the experience and the economic contacts of Bulgaria with the developing countries. In connexion with the prospects of these activities and the substantial improvement of the financial status of some developing countries (mainly oil producers and exporters), the Bulgarian Government provides for the receipt of loans from them in order to expand the scope and diversify the forms of industrial co-operation. At present, such potentialities have been utilized in relations between Bulgaria and Iran (for setting up projects related to the canning industry, road transport and agricultural production).

The developing countries repay their loans in the form of the industrial output of the newly-built production units; in most cases, Bulgaria applies a one-year grace period. In the remaining cases, payments are effected in hard currency. Naturally, the intensifying currency crises and shocks suffered by the major world currencies considerably increase the risk. The hard currency and gold clauses employed thus far in this respect might prove insufficient guarantees for stimulating the financial and credit activities of Bulgaria in developing countries in the future. In order to attain more stability and reliability, such relations should be financed through the transferable rouble and Special Drawing Rights (SDR).

A rational solution to the problem of financing industrial co-operation has also been discussed in Poland. Unlike developed market economies, Poland is not faced with capital surplus. The rapid growth of the national economy has created a situation where all the financial resources available are immediately re-invested. However, Polish exporters will continue, as far as the situation permits, to supply developing countries with complete industrial plants, machinery and technology on credit terms, and to assist in strengthening the industrial and technological capacities of those countries.

For a number of reasons, the simplest method of financing industrial co-operation would be to use the resources of the participants themselves. Depending on the nature of the agreement, the contributions of participants could take the form of currency payments, deliveries of machinery, equipment installations and whole production lines. Transfer of licences, know-how,

services of experts and engineering staff are also of importance. Experience has shown that, in many situations, this kind of financing has helped considerably to overcome capital shortages, especially in projects realized by joint ventures.

Bank loans could play an important role in financing the development of industrial co-operation. The special nature of industrial co-operation calls for flexibility on the part of banks as regards the period for which loans are granted. In the context of industrial co-operation, one of the purposes of loans is to bridge the gap between the time of investment and the point at which the plant can pay for itself. Bank loans could be provided both by individual banks and banking consortia. The formation of a consortium would be desirable, particularly when the co-operation projects to be carried out call for considerable resources over a long period of time. The members of the consortium could be the banks of countries participating in a co-operation agreement, or of other countries, as well as international financing institutions.

The other way to finance industrial co-operation is to diversify the system of repaying the credits and interest by traditional and industrial exports from developing countries. The CMEA countries are emerging as major importers of industrial goods produced by enterprises built with their assistance: for example, iron and steel, tools, chemical and electrical engineering goods, light and food industry projects. In 1971-1975 the export of finished and semi-finished goods from the developing to the socialist countries registered an annual growth rate of 22 per cent, and exceeded 35 per cent in the last two years of that period,^{1/} although the following years showed a certain slowdown.

Sometimes, industrial exports from a developing country are designed to repay the credit account for relatively large figures in physical terms. Thus, in 1976 Afghanistan exported to the USSR 2.5 billion cubic metres of natural gas and about 30,000 tons of nitric fertilizers (from the Majari-i-Sheriff plant built with Soviet assistance).^{2/} Via the Trans-Iranian pipeline, the Soviet Union received in 1970-1976 51.4 billion cubic metres of natural gas, part of which went to defray the expenses incurred by the Soviet organizations assisting in its construction. Most of this gas is used in the Soviet

1/ Foreign Trade, 1976, No. 8, Supplement, p. 14.

2/ Foreign Trade, 1977, No. 6, p. 14.

Transcaucasian republics. The proceeds from the sale of gas since 1970 have enabled the Iranians to repay the cost of the construction of the pipeline.

It is common practice in relations between the USSR and the developing states to grant 10-12 year loans (sometimes for a longer period) at an annual rate of 2.3 per cent. Repayment starts after the supply of machinery and equipment or the building of a project has been completed. In some cases, an additional two- or three-year period is granted which under normal conditions is sufficient for a developing country to repay the bulk of the loan and interest thereon from the revenue created by the newly-built enterprise.

As a rule, credit agreements do not stipulate that payment should be in hard currency, which is a boon for the balances of payments in the developing countries, as it partially eases the problems of foreign debts. In some cases, the USSR reschedules repayments if a borrower finds itself in dire financial straits. In 1974, for example, an agreement was reached on putting off the repayment deadline for Ghana. In 1975, the USSR put off the repayment of more than 100 million roubles by Afghanistan scheduled for 1975-1980. The above payments will now be made between 1986 and 1995 in equal annual installments, with no interest rate being levied on that sum.^{1/}

Soviet credits have become an important factor in the realization of national development plans in many developing countries. For example, Soviet credits to India accounted for about 12 per cent of the investment in the state sector in industry under the Third Five-Year Plan (1961-1965). Soviet credits provided one-third of the total investments under Afghanistan's First Five-Year Plan (1956-1961). Under Syria's Third Five-Year Plan (1971-1975), the share of the USSR in foreign aid to the country was more than 15 per cent whereas the total share of foreign aid envisaged in the Plan for that period was 50 per cent. Thus, loans from the USSR as well as the other socialist countries are not only an additional source of financial aid to a developing country, but also a stabilizing factor in the economies of the developing states, contributing to favourable external conditions for the fulfilment of national economic development plans.

Since the financial aspects of industrial co-operation between socialist and developing countries are important to both groups of countries, it is worth considering the experience gained by some developing countries, within the framework of bilateral arrangements. In this respect, the example of

1/ Foreign Trade, 1977, No. 1, p. 20.

India, which has a long experience of trade and co-operation with the socialist countries of Eastern Europe, is of particular relevance.

Among the issues directly affecting payments and financing of co-operation on bilateral basis, India's experience has shown that effective administration of bilateralism calls for a good understanding of the role of the exchange rate as it affects individual contracts of various transactions and as it determines the balances held. Further, it also re-inforces the need to have an explicit written understanding regarding various aspects of the exchange rates. The developing countries may have to give considerable thought to this issue and work out in detail exchange rate implications in different cases.

India has frequently had to deal with balances which it and its trading partners hold. In this regard, the agreements and protocols were fairly clear regarding the future of such balances. This was facilitated by regulating trade continuously on the basis of renewed trade agreements. The old balances were carried forward to new agreement periods and properly utilized. Even in cases where a switch to multilateral trade might be envisaged and the future of these balances might be affected by either exports or imports, no country would consider this a loss of valuable hard currency. Therefore, it seems essential for other developing countries to identify clearly the use of balances when deciding to continue or to discontinue bilateral arrangements.

India was a recipient of technical credit in the early days, but in subsequent years it has become a donor. Whenever it has offered technical credit (and there was tendency that this might happen more often than deemed acceptable to India), serious attempts were made to identify imports to correct imbalances. The issue of technical credit is essentially linked with trade flows. Monitoring technical credit facilities and expanding imports must be considered a necessary part of the policy responses adopted by developing country governments while trading under bilateral arrangements and also while making a decision to switch over to multilateral trade.

Although bilateral arrangements are still the main basis of financing industrial co-operation between socialist and developing countries, in recent years some partners among the two groups of countries have begun exploring possibilities and undertaking initial experiments in multilateral financing.

These attempts are connected mainly with the diversification of activities of two financial agencies of CEEA countries, namely the International Bank for Economic Co-operation (IBEC) and the International Investment Bank (IIB). The provisions on multilateral financing of trade and co-operation already adopted by the two banks are of special interest to this study.

In 1976, following the increase in trade between the CEEA countries and the other countries of the world, the Council of IBEC adopted a decision to facilitate procedures for participation by non-member countries in its activities. According to this decision, payments in transferable roubles between member countries and non-member countries of the IBEC may be carried out for goods and services, for covering non-commercial expenses of diplomatic and other representation, tourists, etc. The relevant agreement on purchase/sale of goods and services or payment of non-commercial expenses through accounts in transferable roubles should be reached between foreign trade firms and organizations, as well as between banks and other competent organs of the interested countries.

Transferable rouble settlements between member countries and non-member countries of the IBEC may be effected according to different patterns, as follows:

- One member country and one non-member country of the Bank;
- One member country and several non-member countries;
- Several member countries and one non-member country; and
- Several member countries and several non-member countries.

The pattern is chosen by the interested countries themselves.

The object and volume of settlements according to each of the patterns are also agreed upon among the interested countries. Settlements may cover delivery of individual lots of goods or all trade turnover. Settlements on non-commercial expenses may also be effected partially or totally in transferable roubles. It is advisable that the volume of settlements be balanced for one year or a longer agreed period on a bilateral or multilateral basis.

To start settlements in transferable roubles between member countries and non-member countries, the IBEC should be informed by the banks of the interested countries of their prior agreement concerning such settlements. The figure of the volume of settlements may be preliminary and subject to finalization or further alteration by agreement between the interested parties.

The IBEC opens current accounts and grants credit in transferable roubles to banks of interested countries for bilateral or multilateral settlements. The IBEC does not open current accounts and does not grant credit to firms, enterprises, organizations or private persons. They may participate in transferable rouble settlements only through their banks.

When opening current accounts and granting credit in transferable roubles, the IBEC concludes with the banks agreements containing the main conditions for conducting settlement and credit operations. The main conditions for opening a transferable rouble current account with the IBEC are the following:

- Assets on the account are at the free disposal of the holder of the account;
- IBEC fulfils the orders of the holder of the account to carry out payments in all forms accepted in international banking practice (letter of credit, collection, remittance);
- IBEC pays interest of 1 per cent per annum on the account balance.

The main conditions for receiving IBEC credit in transferable roubles are as follows:

- Credit is granted for a fixed term, up to a limit of three years;
- IBEC charges interest of 1.5 per cent per annum on the credit utilized irrespective of the terms of credit;
- Credit may be repaid in transferable roubles or in convertible currencies at the rate set by the IBEC.

The banks of non-member countries, while performing settlements on the total of their trade turnover with all the IBEC member countries, draw credits and place deposits in transferable roubles on the conditions now in force for the IBEC member countries.

The banks of non-member countries that participate in transferable rouble settlements may notify the IBEC of their withdrawal from such participation. The procedure for the withdrawal from participation in settlements is established by virtue of an agreement reached between the IBEC and the interested bank.

The use of transferable roubles in payments between developing countries and countries of the CMEA, which implies multilateralization of payments, is entering a practical stage. Some developing countries have recently established

contacts with the CMEA banking institutions with a view to using transferable roubles in mutual payments arrangements with IBEC members.

A more significant step towards the multilateralization of industrial co-operation financing was made by the International Investment Bank, when the governments of the member countries and the Bank signed an agreement to establish within the Bank a Special Fund of one billion transferable roubles^{1/} (a portion in convertible currency) for financing projects of economic assistance and technical co-operation with developing countries.

The aim of this Special Fund is to strengthen co-operation between the CMEA and developing countries. The Fund is designed to render assistance to developing countries in rebuilding their economic structure, creating new economic structures, and developing industry as the basis for the modernization of the developing countries' economies.

From the Special Fund resources, the Bank grants credits for a term of up to 15 years for financing deliveries of equipment, machinery and other goods and rendering services by the member countries of the IIB to developing countries in the construction of new, and the reconstruction and modernization of existing, enterprises in different branches of their economies, especially in industry and agriculture. Banks, enterprises and economic organizations of the state sector or co-operatives in the developing countries may borrow from the Special Fund. In some cases, private firms may also apply for a loan from the Fund. The Bank grants credit from the Fund, primarily in transferable roubles, to pay for deliveries of equipment, machinery and other goods from the member countries of the Fund, as well as to pay for services rendered by various organizations of those countries. Only in specific cases is credit granted in convertible currencies, for example to pay for equipment which is not manufactured in CMEA countries or to pay for licences. The possibility of getting part of the IIB credit in convertible currency may help developing countries to combine supplies from centrally-planned economy countries with supplies from market-economy countries.

As far as investment credit in transferable roubles is concerned, it can be used for medium-term and long-term financing of capital investments both in the CMEA member countries and the non-member countries as well. Granting of credit in transferable roubles means that borrowers themselves should secure sources of supply in the CMEA member countries.

^{1/} The official rate of exchange is 1 US dollar = 0.754 transferable roubles.

Procedures for the use and repayment of credit from the Special Fund in transferable roubles are shown in the diagram on page 41. As can be seen from this diagram, the borrower may use IIB credit in transferable roubles, provided deliveries of equipment and other materials from the CMEA member countries are balanced with deliveries of goods from the recipient country to the CMEA member countries. It is assumed that the borrower has already identified both the supplier of equipment and of other materials for the project and buyers of the product from the project in the CMEA member countries.

By the beginning of 1977, IIB had concluded the preparation of basic documents on credit operations with non-members of the Bank and started business contacts with third countries. The IIB specialists participated in the work of the Joint Commission on Co-operation between the CMEA and Mexico and considered opportunities to grant credit for joint construction of phosphate-extracting enterprises in Tunisia and Morocco. The Bank also took part in negotiations on rendering financial assistance to the Lao People's Democratic Republic and Angola.

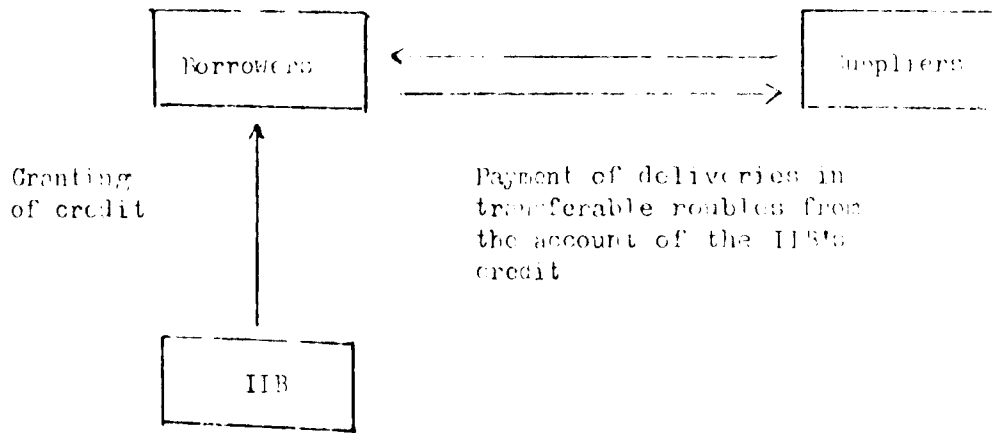
Credits granted by the International Investment Bank through its Special Fund may play an important role in the development of co-operation provided that the countries involved try to make more efficient use of transferable roubles. To that end, IIB credits for capital investments are better if based on multilateral co-operation agreements between IIB member countries and developing countries.

IIB granting credit for investment projects in developing countries may also represent an interest for other banks if it facilitates their participation on a mutually beneficial basis. In this connexion one should mention the growing role of regional banks, such as the Inter-American Development Bank (IADB), the Asian Development Bank (ADB) and the African Development Bank (AFDB), in providing credit for development projects. The possibility of co-operation with these banks in financing projects, where the organizations of the socialist countries are involved, calls for closer study. Such co-operation has already taken place. The IADB financed an Argentinian-Uruguyan complex, Salto Grande, for which the Soviet Union's Energomachexport supplied 14 units of equipment.^{1/} These supplies were financed by the International Bank for Economic Co-operation, which took part in consortial credits to the IADB.

1/ Foreign Trade, 1977, No. 6, p. 43.

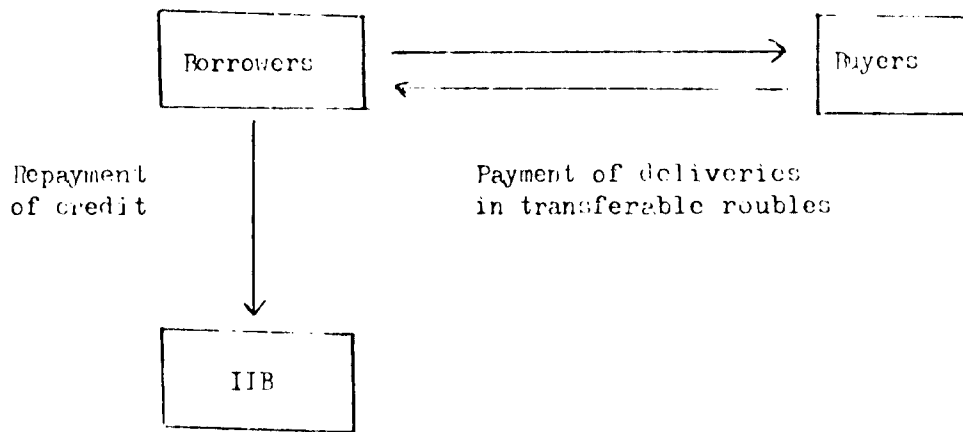
Stage I: Granting of credits

Deliveries of equipment and other materials from the CEA member countries for the construction of the project financed by the IIB



Stage II: Payment of credits

Deliveries of goods from corresponding developing countries to the CEA member countries



One of the new sources of credits for industrial co-operation between the two groups of states, and a means of mobilizing additional domestic resources in the developing countries for these purposes, could be financial organizations in which both the socialist and developing countries take part. There are already some banks in the third world in which the socialist countries participate. Thus, the Bulgarian-Lebanese Joint Bank has been in operation for several years, and a Romanian-Egyptian Bank has been set up.

The resources of some oil-exporting countries have recently offered a new source of finance for industrial co-operation between the socialist and developing nations. Iraq, Iran and Algeria have for some time been major partners of the CMEA. Libya, Kuwait, Nigeria and Venezuela recently took steps to expand their economic ties with the socialist countries. In order to attract petro-dollars, the socialist countries could take part in industrial development programmes in the oil-producing countries and joint action in third developing countries. In their relations with oil-exporting countries such as Libya and Kuwait, which have free financial means, the socialist countries could also act as suppliers of equipment and know-how under these countries' programmes of aid to other developing states. Talks are under way, for example, between Poland and Kuwait on their possible joint entry into the markets of third countries with Kuwait's financial participation.

Besides the problem of new sources of credit for industrial co-operation, equally important are the diversification and partial modification of the functions of the socialist countries' credits. In keeping with the general trend of economic relations between the socialist and the developing states, these credits, while continuing to be a means of aiding the industrial development of the third world countries, increasingly emerge as an instrument of deepening a mutually beneficial division of labour. It would seem that greater emphasis on loans to finance the development of international specialization and co-operation and compensation deals could substantially increase the export resources of the developing countries, help towards the establishment of stable long-term economic, scientific and technical ties both in manufacturing and mining industries on a balanced basis, as well as help to solve the problem of the developing countries' foreign debts and hasten the realization of co-operation projects.

In this connexion, the countries should pay more attention to commercial credits, which have tended to increase recently. Commercial credits help promote co-operation at the level of enterprises and firms, which is important in exploiting joint operations. Besides, the expanded practice of commercial credits helps to establish co-operation with medium and small firms in the developing countries. The search for an optimal combination between state and commercial loans as applied to concrete conditions in a particular developing country can lead to an expanded volume of credit co-operation, and can help to expedite and solve the problem of repayment of the credits. At the same time, it appears likely that in future there will be a certain differentiation in the terms of credit depending upon the sector where assistance is being rendered, the speed of returns on a project, etc. Greater use of turn-key construction of industrial projects, for example, can be expected in respect of the oil-producing and other developing countries with adequate financial resources.

Chapter IV

LEGAL ASPECTS OF INDUSTRIAL CO-OPERATION

The development of industrial co-operation as well as general economic relations between developing and socialist countries has drawn more attention to the legal regulation of co-operation between the two groups of countries.

In general, the basic legal principles of co-operation have taken shape as the conventional standards of international law, but they have also found contractual expression in documents, including those issued by UNCTAD and the CMEA, as well as in many other multilateral and bilateral agreements. The practice of co-operation has shown that the main legal instrument of co-operation accepted by both socialist and developing countries is an agreement on trade and co-operation, the salient features of which are:

- Provision of a structural framework which ensures the equality of exports and imports of the contracting parties, over a period of time for which the agreement has been negotiated;
- Granting at least the most favoured nation status to the items which move under the specific provisions of the trade agreements;
- Development of an elaborate payments mechanism, which is to take care of the fact that trade under the agreements is conducted in terms of non-convertible currency.

In view of the fact that industrial co-operation covers a whole range of economic contracts that do not come under the category of conventional trade, the countries pay special attention to the details stipulated in these contracts and to the establishment of favourable conditions for industrial co-operation. In particular, the participating countries confirm their interest in achieving the fullest possible harmonization of standards and technical specifications. In order to encourage new forms of co-operation and to facilitate trade, the participants state that they will adopt a favourable

attitude towards the conclusion of special bilateral agreements on various questions, such as the removal of double taxation and the facilitating of conditions for the transfer of profits.

Since the legal regulation of industrial co-operation is based primarily on the countries' national legislation, further generalization would be rather futile. In view of the fact that foreign trade legislation varies greatly from country to country, it would be more relevant to analyse a number of cases.

In Bulgaria, the legal aspects of industrial co-operation are governed by several acts, including the Law on Foreign Trade and Decree No. 1196 for economic, industrial and technical co-operation with foreign legal entities, in which it is stated that the development of international economic, production and technical co-operation is encouraged in Bulgaria, for which purpose favourable planning, financial, credit, customs, and other facilities are created.

International economic and industrial co-operation is realized through the conclusion of long-term contracts between the competent economic organizations. The conditions guiding the implementation of a given industrial co-operation project are fixed in separate contracts concluded between the competent economic organizations and the respective foreign trade enterprises. Bulgarian legislation does not exclude the possibility of such contracts also being concluded on behalf of separate ministries and establishments which, in such cases, act as subjects of civil law.

Agreements for industrial co-operation may constitute a separate body under civil law, where a wide range of questions relating to production, technology and foreign trade are resolved in a complex manner. The decree on economic, industrial and technical co-operation and the regulations governing its application stipulate that an agreement on industrial co-operation constitutes the basic instruments for the realization of this co-operation. The regulations are directed towards certain elements in such agreements, the parties thereto being granted complete contractual freedom as regards the contents of the agreement and the arrangement of the terms and conditions

of co-operation. The mechanism for the preparation and conclusion of the agreements is defined, and one of the typical features of such agreements is their long-term nature.

Respective contracts are concluded between the competent organizations for the delivery of complete plants, provision of assistance, establishment of industrial and other projects, as well as design work, expert services or personnel training. All these contracts have specific features which require profound consideration and study.

Certain peculiarities could be found, for example, in cases where the agreement for industrial co-operation covered a longer period of time and when the supplier of equipment, technology, production expertise and other services undertook not only to deliver the product in hand, but also to provide, for the respective period, production, product marketing, supply, expert and maintenance services.

One of the important points in trade and co-operation agreements is the question of determining the law to be applied. The legal order which regulates the contracts is fixed by each state through establishing respective legal norms either individually through its domestic legislation or through unilateral sanctioning of internal or international customs. In a number of cases, the legal order can be fixed jointly with one or more partner states by way of international contracting and sanctioning of domestic or international custom, thus the norms which have occurred become a part of the national system of each state which has established them.

The foreign trade section of the agreements for economic, industrial and technical co-operation presupposes a connexion with the legislation of the parties to the contract and, in some cases, with the legislation of third countries as well.

The principle of autonomy of will dominates in the up-to-date doctrine and in the prevailing part of the legislation when determining the legal order.

The principle of autonomy of will is incorporated in Bulgarian legislation by virtue of Article 9, item 1 of the law for Liabilities and Agreements, which reads: "The parties may determine freely the contents of the agreement in so far as it does not contradict the law, the state national development and the rules of the socialist community". This means that the Bulgarian foreign trade organizations, when concluding contracts with an international element, may work out freely, with the consent with their partners, all stipulations of the contract. As regards the pending questions, they may come to an agreement to apply a foreign law or, instead of working out mutual consent in the contract clauses, they may subject this contract to the established international customs, or to one or several foreign laws.

The choice of law to be applied for regulating the setting, the validity and the discontinuation of legal interrelations under contracts with an international element enjoys wide application in the practice of the Bulgarian foreign trade organizations. By taking advantage of the principle of autonomy of will, the organizations may often choose to apply the law or legislation of other countries. The principle of autonomy of will, however, is not absolute; it has certain restrictions. When the work contracted for is carried out in Bulgaria, the Bulgarian organizations are obliged to identify only the Bulgarian law as the law applicable.

Unlike Bulgaria, Hungary, in addition to its existing foreign trade legislation, has introduced preferential treatment for most of the developing countries in order to facilitate trade as well as industrial co-operation. The list of tariff preferences to be granted by Hungary as well as a list of the beneficiary countries in the Hungarian preferential tariff system was circulated through the relevant UNCTAD documents. Special preference, namely exemption from duties, has been granted to least developed countries since 1978. According to Hungarian regulations, such preferences are granted for those developing countries outside Europe which have a per capita GNP not higher than that of Hungary and which do not discriminate in their trade policy against Hungarian goods.

A feature peculiar to Hungarian legislation on foreign economic relations is that whichever definition of co-operation is considered, the parties on the Hungarian side are always separate economic and industrial units. This does not mean that Hungarian organizations without authorization can be parties in specific forms of co-operation. International production and trade co-operation and foreign economic undertakings fall within the foreign trade law. As a result, the preparation and execution of contracts with foreigners within the scope of these economic activities is considered a foreign trading activity, which can only be performed on the basis of foreign trade rules. Accordingly, one of the enterprises involved in the co-operation has to be a company authorized to perform foreign trading activities. It must be mentioned in this context that when a foreign trade contract relates to co-operation in production, other domestic economic organizations can also participate in its preparation and conclusion, together with the competent foreign trading company.

Special mention should be made of the legal regulations in Hungary which govern the notion of international industrial co-operation and the functioning of companies involved in such co-operation.

Industrial co-operation can be defined as a contractual economic relationship between two or more enterprises of different nationalities, extending over a longer period, whereby a community of interest is established for the purpose of complementing activities relating to the supply of licenses and equipment, development of new technologies, the exchange of information on, and the use of, those technologies, production and marketing, with provision for the settlement in kind of the whole or part of the obligations arising from co-operative activities. This train of thought used in the Economic Commission for Europe is generally known and accepted everywhere, including Hungary. In Hungary, as in other socialist countries, the term "co-operation" is used in two senses. In the narrower sense, co-operation means relations relating to production and/or trading activities between Hungarian economic organizations and enterprises of a foreign country or countries. Consequently, this form covers activities with a joint purpose, but carried out separately. The legal form of manifestation of this is: a contract involving several parties: the co-operation contract.

In a broader sense, co-operation is the capital investment, an economic undertaking designed for production, trading or service activities between Hungarian economic organizations and foreign natural and/or legal personalities, irrespective of where they take place. In such a case, consequently, a partnership or joint enterprise featuring a legal entity comes into being. Economic partnerships functioning in Hungary with foreign participation are dealt with in detail in decree 28/1972/X.3/PM, while the rules for economic ventures abroad of Hungarian economic organizations are contained in full particulars in joint decree 4/1975/III.27./PM.

Hungarian enterprises as independent legal bodies determine on their own (within the framework of the national economic plan) what products they want to manufacture, whether these are to be marketed domestically or abroad, and which foreign experience, licenses or know-how they use or buy for their production. In general, the state exercises influence on the activity of enterprises through economic regulators, taxes, financing policy, customs and other financial means. In the elaboration of their own production and marketing programmes, independent enterprises endeavour to manufacture such products and to carry out such a programme of marketing as ensures a profitable functioning to the greatest possible extent. Undertakings promoting such objectives are realized, on the one hand, in the framework of long-term co-operation contracts and, on the other, by the establishment of enterprises with joint interests representing independent legal personality.

Hungarian enterprises can establish joint ventures with each other, and the new joint ventures are interested in making their own profits. A joint venture can carry on foreign trade if it receives permission from the Minister of Foreign Trade. In accordance with this permission, Hungarian enterprises can establish joint ventures for achieving definite economic objectives not only in Hungary but also in other countries, which may be the country of the contracting party or any third country. For its establishment the Hungarian enterprises can make use of their own development funds or can approach the National Bank of Hungary for credit. Such joint venture

enterprises are subordinated to the legal systems of the host state. The form of their incorporation and entire legal status is determined by the founders in accordance with the traditionally applied legal rules. In the event of a dispute arising between the partners in an equity joint venture, the regular courts as well as an arbitration tribunal sitting in either of the countries are considered competent.

As in the case of Hungary and Bulgaria, Poland - while trying to establish favourable conditions for the development of industrial co-operation with foreign countries - has also adopted specific legislation dealing with all aspects of this question. One of the most important documents is a special resolution of the Council of Ministers adopted in 1971, concerning the development of economic and industrial co-operation with foreign countries. According to this resolution the term "industrial co-operation with abroad" means "possibly stable co-operation between home and foreign partners in the manufacturing process, understood in its broad sense, from the research phase to marketing and technical services, guided by the principles agreed between the said partners". The cited definition reflects the idea of industrial co-operation as defined in United Nations documents. The resolution determines the main principles of the participation of Polish enterprises in industrial co-operation with foreign partners, as well as measures and methods to be adopted in the implementation of that form of co-operation. One of the most important provisions of the said document is the requirement to link the lines of developing industrial co-production with general assumptions of long-term socio-economic plans.

Another important provision of the resolution is a special recommendation that the intergovernmental long-term agreement with foreign countries shall include clauses stimulating industrial co-operation. The resolution also contains authorization for individual ministries to work out their departmental regulations concerning industrial co-operation with foreign countries. The resolution stipulates the establishment and activity of a permanent Commission for Co-operation Development attached to the State Planning Commission and composed of representatives from various economic sectors. The main tasks of the Commission are:

- Pronouncing opinions on the long-term programmes of industrial co-operation with foreign countries;
- Evaluating suggestions made both by Polish and foreign partners concerning inter-sectoral co-operation ventures of particular significance to the whole economy;
- Forwarding proposals concerning eventual necessary changes to be introduced in economic and organizational system of industrial co-operation abroad;
- Preparing periodic evaluations of the whole activity in the field of industrial co-operation with foreign countries;
- Presenting for the approval of the Presidium of the Government motions concerning desired and more effective directions and forms of industrial co-operation.

Bearing in mind the special nature of production co-operation with foreign countries, as well as the need to ensure necessary flexibility in this sphere, the Polish legislation system decentralizes in many respects the decision-making process, passing this right to industrial firms. The firm, as the executing entity, has at its disposal most of the basic information required to undertake rational decisions in the matter of industrial co-operation. The management of an industrial firm, by virtue of the technical, economic and organizational data available, is competent and authorized to:

- Initiate proposals for industrial co-operation with foreign countries;
Examine proposals received;
- Negotiate with the partner the conditions of co-operation;
- Decide whether to enter into co-operation arrangements with a particular partner; and
- Conclude contracts or agreements for the establishment of such relationships.

Owing to the fact that industrial firms are not always adequately informed about the possibilities of foreign partners and their interest in the establishment of co-operative relationships, the legislation stipulates that a competent Polish foreign trade enterprise should make every effort (wherever it has permanent contacts and its own representatives) to explore the possibilities for co-operation arrangements and transmit enquiries and proposals to industrial firms in Poland. They should provide these firms with direct assistance in the preparation of proposals, the organization of negotiations and the conclusion of contracts. Foreign trade enterprises can if necessary contribute directly to the conclusion of co-operation contracts or agreements and become responsible parties under these contracts and agreements. They may also act as agents for a foreign partner in matters of industrial co-operation with the Polish partners.

In the Soviet Union, as a special legislative act related to international trade and co-operation, a law was issued in 1965 by which the Soviet Government lifted all tariff and customs limitations on imports (including imports of manufactured goods) from developing countries.

A leading role in Soviet legislation is played by long-term inter-governmental agreements on economic, industrial and scientific and technological co-operation, along with trade and payment agreements. Depending on their content, the agreements with the developing countries can be general and special. General agreements define the principles and norms of co-operation and the goals of economic assistance to developing countries. They usually contain a provision to the effect that the concrete list of projects and the volume and terms of technical assistance in each case are to be fixed in the course of additional consultations and codified in corresponding documents. By early 1978, the Soviet Union had intergovernmental agreements on economic and scientific and technical co-operation with 62 developing countries. Special intergovernmental agreements envisage co-operation in individual sectors or work on a concrete project. The current trend is towards more rapid growth of the number of special agreements because co-operation with most developing countries is currently carried out within the framework of earlier general agreements.

With the intergovernmental commissions for economic and scientific and technical co-operation intensifying their activities, the records of their meetings have also become important legal documents regulating industrial co-operation between the USSR and a number of developing countries. In these protocols the sides set down their views on such problems as technical parameters and the quality of building enterprises and equipment supplied, the schedules of construction and delivery dates, the level of prices for equipment, materials and the products of the enterprises, and the questions of financial co-operation projects. As a rule, pursuant to the protocols, expert groups of the representatives of both parties are set up in the intersessional periods and given a fixed time in which to prepare proposals on the development of co-operation and work towards mutually acceptable solutions on disputes that arise. The agreements and mutually acceptable solutions are fixed in the records of the subsequent session of the Commission. Annual protocols also state the measures each side undertakes towards the successful realization of co-operation and the elimination of the difficulties encountered. The sessions of mixed commissions thus become increasingly important ways of strengthening co-operation and resolving disputes arising in the course of co-operation.

Proceeding from intergovernmental agreements and in compliance with domestic legislation, competent organizations which enjoy the rights of juridical persons conclude contracts with the organizations of the partner countries. The contracts determine the volume of assistance, work schedules, the parameters of equipment to be supplied, the list of necessary documents, the training schedules for personnel from the developing country, fines and sanctions for late fulfilment of commitments, and other terms. Contracts are thus the main legal documents of co-operation at the micro-economic level. In order to increase the role of contracts as stimuli to greater industrial co-operation, measures are taken to standardize their terms. The first to be standardized in this way in the USSR were contracts signed with major economic partners. Examples are offered by: the General Conditions of Technical Assistance developed in keeping with the Agreement on Economic

and Technical Co-operation between the USSR and the Republic of Iraq of May 16, 1959, and the protocol attached to it of 17 March 1965; the general terms of equipment supply, design and technical assistance under the Soviet-Algerian agreements of 27 December 1963 and 16 March 1964; the general terms of technical assistance under the agreement between the Government of the USSR and the Government of Guinea of 24 August 1959 and the protocol of 1 March 1960 and a number of other normative documents of this kind. The successful application of these documents contributed to the elaboration of standard contracts on technical assistance in the building of individual contracts on technical assistance in the building of individual industrial projects. Such a contract usually consists of the following sections: the subject of the contract, the volume of commitments, prices, schedules, terms of deliveries, quality and safeguards, the terms of experts' missions, terms of the technical training of personnel, undertakings to ensure normal operations, the procedure of payments and payment deadlines, the waiving of liability, the procedure for settling disputes and the final resolution. The structure of contracts for "turk-key" projects in the developing countries has also been determined.

Contracts concluded by the organizations of the socialist and developing countries envisage a procedure for the settlement of disputes. For example, the agreement on the general terms of contracts between the Soviet and Sri Lankan organizations specifies that all disputes and differences that might flow from the contract or are attendant thereupon are to be settled by arbiters in arbitration commissions, and that the sides must not appeal to the courts in their respective countries. When the defendant is the Soviet side, arbitration takes place at the Arbitration Commission for Foreign Trade under the USSR Chamber of Commerce. If the defendant is the Sri Lankan side, arbitration takes place in Colombo in accordance with arbitration rules and regulations existing in Sri Lanka. The decisions of the arbiters are final and binding on both sides. Under an agreement between the USSR Chamber of Commerce and the Federation of Indian Trade and Industrial Chambers, the arbitration body from the Indian side is the Arbitration Tribunal of Indian

Chambers of Commerce and Industry. In a number of cases the procedure for settling disputes arising in the course of co-operation between the socialist and developing countries can be slightly different. An arbitration amendment to the Soviet-Turkish agreement, for instance, provides that all disputes are solved by two arbiters, one from each side. If they fail to reach an agreement, a third person is appointed by the presidents of the chambers of commerce or government representatives. The Soviet-Iranian agreement envisages that if efforts to solve disputed questions are not successful, an arbitration commission of four persons is set up (two from each side), and if the latter does not come up with an acceptable solution, a commission of the representatives from both governments is set up on the basis of parity.

Contracts contain provisions aimed at ensuring the high quality of equipment supplied. Depending on the character of the equipment, various guarantee periods are fixed ranging from 9 to 24 months after installation. The supplier is liable to replace the defective equipment at his expense. But he is not liable if the equipment has been stored or operated under conditions that are contrary to the technical instructions. A procedure for reclamation is also envisaged in the legal documents.

Agreements on economic co-operation and contracts signed on their basis also stipulate prices for machines, equipment and materials supplied as well as for the products of the given enterprise to be imported by the Soviet Union. As a rule, the prices are set by mutual understanding on the basis of world prices. In certain cases, in order to avoid sharp market fluctuations of prices, the parties agree that the prices for the main work and equipment are fixed while the price of services and certain materials are subject to revision. In other cases, the parties may agree that prices for the equipment supplied could be increased if its technical parameters become higher. Prices are usually fixed after thorough study of all technical, economic and financial matters.

To ensure that work schedules and delivery deadlines are met, measures are envisaged to stimulate the activity of both partners in that direction.

Many contracts contain the proviso that unless the equipment is installed within six months the customer pays the cost of its further storage. In turn, some contracts stipulate that if the supplier fails to meet his commitments and the corresponding enterprise and/or production facility does not reach guaranteed capacity in terms of quantity, quality and/or production costs, the customer has the right to lower the price subject to mutual agreement.

The broadening of the economic co-operation between the socialist and developing countries and the emergence of new forms of such co-operation prompts constant improvements in the legislative activity of the CMEA countries. The development of joint ventures led some CMEA countries to introduce legislation regulating the activity of mixed companies in which these countries participate. A legal framework is being laid for international production specialization and co-operation between the socialist and developing countries. Since more and more agreements and contracts provide for the possibility of third countries' supplying some kinds of equipment and carrying out certain types of work, the time has come to elaborate a legal basis for co-operation involving several socialist or market economy countries. The elaboration of new legal acts and improvement of existing ones in keeping with the urgent needs of developing countries will contribute to the development of industrial co-operation with them.

Chapter V

PROBLEMS, NEW METHODS AND FORMS RELATED TO THE

DEVELOPMENT OF INDUSTRIAL CO-OPERATION

Industrial co-operation between socialist and developing countries, especially its multilateral form, is a relatively new phenomenon in international economic relations. Although there are many circumstances favourable to industrial co-operation between the two groups, there are still some detrimental aspects. For instance, in spite of the fact that the climate is improving and many forms of discrimination hampering co-operation and trade have been abolished, goods from socialist countries are still frequently treated on third world markets with bias against imported goods from market-economy countries. This includes countries associated with the Common Market, members of the Commonwealth, or members of various monetary spheres, as well as other countries where socialist partners are not given equal rights, sometimes in formal and legal terms, sometimes in plain simple fact.

The fact that the developing countries often have a similar range of exports is a major stumbling-block to complementary exchange. Understandably, the increased import of some foodstuffs or raw materials by the socialist countries cannot be distributed equally between several, or even dozens, of countries exporting the same product. The concentration of purchases is one of the basic principles of trade. Another important factor is that not always the best supplier of the same commodity is the best customer for East European goods. All this points to a certain structural lack of equilibrium in bilateral relations, and the need for suitable solutions which would cover not only all the socialist and developing countries, but also the advanced market economy countries.

Another factor limiting the scale and effectiveness of co-operation between the socialist and developing countries is the absence of reliable marketing methods adjusted to meet co-operation requirements for two groups of countries. These methods have to incorporate a good deal of flexibility so as to be able to cope with the different conditions on each foreign

market. Putting it another way, the development of co-operation between the socialist and developing countries can be accelerated not only by well-founded knowledge of general marketing methods, but also by more concrete knowledge. There is still a lack of the scientific analysis of the peculiarities of co-operation, where partners with different social and economic systems and markedly different principles of economic management and structure are involved.

In this connexion, one of the main problems is how to overcome institutional obstacles stemming from the varying range of functions and powers of administrative bodies which are in charge of economic and industrial co-operation in the partner countries. While administrative organizations in socialist countries in charge of implementing co-operation agreements can rely on the whole economic potential of the socialist country concerned, the organizations in the partner countries represent just one of the sectors of the national economy, even if it happens to be the state sector. Centralized planned control of the economy in the CMEA countries presupposes the inclusion of industrial co-operation agreements in the national economic system. In most of the developing countries, planning is not binding and the organizations signing agreements on industrial co-operation often have no direct say in the allocation of material and technical resources needed to fulfil it. This fundamental difference in the economic mechanisms give rise to certain administrative and technical difficulties which impede the realization of agreements on industrial co-operation.

These difficulties can be manifested in two categories: the first one relates to the beginning of industrial co-operation and the conclusion of the respective contract, whereas the second one relates to the implementation of contracts. The nature of difficulties belonging to the first category is connected with the conclusion of the contract, identifying the partners, the terms and conditions for industrial co-operation, subcontractors, etc. These difficulties are settled mostly in the course of negotiations between the organizations concerned.

As to the difficulties relating to the second category, one should note that they are mainly of a legal nature, since the problems often arise because of the lack of acceptable methods for settling disputes,

arranging two-way concessions and a just settlement of the interests of the parties involved. Some of these problems stem from the lack of a special legislative mechanism for this sort of activity in developing countries. To a certain extent, this role is played by the laws relating to foreign investments (those in basic industries). These laws are created in order to favour foreign capital investments, but their objective is mainly to settle economic questions, which undoubtedly are major indispensable conditions for industrial co-operation. A special legal regulation of the agreements themselves is missing, however, and they are settled by general civil or commercial law.

In connexion with legal problems of industrial co-operation, mention should be made of the lack of unified international legal norms which might constitute the basis for agreements on co-operation. Definition of the legal principles based on the national legislation and sanctioned by the appropriate international agreements might facilitate further development of co-operation. In this area the UN agencies could be of great help, in particular the Commission for International Trade Law (UNCITRAL), together with UNIDO and UNCTAD, which should be asked to study the problems and to solve questions regarding the legal aspects of industrial co-operation. This is necessitated by the fact that the legislative systems of some of the developing countries do not yet have legislative acts or the necessary legal experts to settle these matters in the proper way.

Given the differences in the structures and levels of establishments engaged in industrial co-operation on both sides, an important problem is introduced by the lack of information, which delays contract-making and the conclusion of contracts, causes correspondence to be misdirected, and leads to misinterpretation. Today, this problem would appear to contain two distinct and superimposed aspects.

The information problem at the macro-economic level relates to the lack of sufficient economic data available in economic plans and official studies on economic development which would provide detailed and pertinent information, in terms of industrial branches and itemized products, and planned or projected import requirements and export possibilities. The information, which directly concerns the enterprises, relates to possible areas of industrial co-operation and more specifically to investment projects, to existing

production capacities or to the need for and the availability of specific technology for the production of clearly defined products.

Recently, some countries have started experimenting with the method of orienting industrial co-operation through indicative lists of projects lending themselves to international co-operation. "Subcontracting exchanges", which are designed to supplement the lack of information on the capacities which could be made available for subcontracting, constitute another type of facility that has been used in a few developing countries. The creation of a Research Institute on the World Economy of the Hungarian Academy of Sciences, which is to study the economic requirements of the developing countries and to provide related data to interested Hungarian enterprises, is an illustration of one of the ways in which relevant information at the national level can be disseminated more effectively.

The experience gained by specialized agencies in socialist countries, which deal with the promotion of industrial co-operation agreements with enterprises in the developed market economy countries, could be of assistance in devising similar instruments adapted to the organizational structures and needs of the developing countries. For instance, a Hungarian organization regularly advertises the specialized fields, including the specific requirements and conditions, in which domestic enterprises seek co-operation with foreign firms. Another example in this connexion is the creation, also in Hungary, of two enterprises to explore potential opportunities for industrial co-operation and the establishment of relations between the interested parties as well as to provide assistance and serve as advisers in the drafting of co-operation contracts.

The accumulated experience of co-operation outlines ways to the solution of existing problems as well as the basic directions in which further improvement and development of industrial co-operation might be sought. Since the beginning of the 1970s socialist and developing countries have been actively seeking new approaches, methods and forms of co-operation in order to maintain a process of a steady and long-term co-operation.

If industrial co-operation is to develop successfully as an element of beneficial economic relations between the socialist and developing countries, it should not proceed all by itself but should be co-ordinated

and guided in mutual interests by respective institutions in the partner countries. In this connexion, a key prerequisite for its expansion and deepening would seem to be the establishment of long-term contracts between the central planning bodies of the socialist and the developing countries. Efficient interaction between the planning mechanisms of the partner countries is made difficult by the difference in principles, character and the role of planning in the socialist and developing states as well as by different economic instruments used in the process. Yet the experience of the CMEA countries' co-operation with larger third world partners shows that it is possible to create a system for co-ordinating and dovetailing industrial co-operation measures on a bilateral basis. This system includes agreements on co-operation between the central planning bodies of the partner countries, the setting up of special planning groups within the framework of mixed commissions for economic, scientific and technical co-operation, and measures aimed at partial co-ordination of national economic plans.

In 1973 a co-operation agreement was signed between the State Planning Committee of the USSR and the Indian Planning Commission. Under this agreement a planning research group was set up within the USSR-India Intergovernmental Commission which included representatives of the USSR Gosplan and the Indian Planning Commission. The group organizes the exchange of experience in economic planning and forecasting, studies, the methodology of the preparation of annual, medium-term and long-term plans and carries out assessments of projects and programmes. Collaboration between the planning bodies of the USSR and India has made it possible to develop long-term programmes extending over 10-15 years of co-operation in key branches of the Indian economy, notably in industry.

In 1974 an agreement on co-operation in planning was signed between India and Czechoslovakia. The agreement provides for the establishment of a working group for the exchange of planning experience and the search for new areas of mutually beneficial co-operation between the two countries.

The same year an agreement was reached on co-operation in planning between the GDR and Iraq. A planning subcommission set up under the auspices of the Joint Intergovernmental Commission for Economic, Scientific and Technical Co-operation studies the practice of economic planning in

the two countries with a view to finding possible areas of co-operation where the greatest benefits can be yielded. The subcommission also studies methods of planning, discusses fundamental issues of short-term, medium-term and long-term planning, and organizes exchanges of information. Its work can contribute to the development of methodological principles of the co-ordination of economic performance through mutual planning.

The growing elements of planning in co-operation between socialist and developing countries and its increasingly long-term character are preparing the ground for partial co-ordination of economic plans of the partner countries which in future is likely to expand into new areas. The first steps are already being taken in that direction. In 1975, for example, Syria and Czechoslovakia agreed that the basis for their co-operation should be the Fourth Five-Year Plan of Syria and the Sixth Five-Year Plan of Czechoslovakia, which presupposes certain measures towards partial co-ordination of these plans. The joint Czechoslovak-Indian planning group has decided that the long-term plans of the partner countries should take into account measures to co-ordinate industrial development in the two countries.

The deepening of socialist economic integration in the CMEA makes it possible to co-ordinate industrial co-operation between socialist and developing countries on a multilateral basis. As has been noted, the Comprehensive Programme for Socialist Economic Integration envisages the possible participation of third countries in mutually advantageous economic co-operation. The best results in this field could apparently be achieved if the prospective participation of interested developing countries is made known while the sectoral and subsectoral integration programmes are being determined. It gives the opportunity to conduct co-operation feasibility studies on the basis of long-term demands for the respective types of products and to determine measures towards increasing the output of products and developing international specialization and complementarity. In this respect some opportunities for concerted action to expand multilateral industrial co-operation are offered by connexion between industrial organizations in developing countries and specialized international economic organizations of socialist states. The Comprehensive

Programme and the status of these organizations form an organizational and legal basis for this type of international co-operation.

The creation of elements providing economic links between socialist and developing countries with a long-term character is important for expanding stable co-operation. Among these elements, the most important are long-term treaties and agreements on co-operation for the period of 10 to 15 years. These agreements came into existence at the beginning of the 1970s. In 1972, a 15-year agreement on economic and technical co-operation was signed by the USSR and Iran; in 1973 a 15-year agreement on the further development of economic and trade co-operation was concluded between the USSR and India; in 1975 a new agreement on economic and technical co-operation for the period of 10 to 12 years was signed by the USSR and Afghanistan; in 1977 a 10-year agreement was concluded between the USSR and Turkey. Other CMEA countries, too, have been concluding long-term co-operation agreements. Thus, Bulgaria has a 15-year economic, scientific and technical co-operation agreement with Iran, and Poland has an economic and industrial co-operation agreement with Iran for the same period. The realization of such agreements offers additional opportunities for tackling national economic problems on a comprehensive long-term basis through partial co-ordination of the partners, the increase of co-operation, improved organizational and legal forms and gradual formation of mutually complementary economic structures. The CMEA countries are prepared to practice more widely the conclusion of long-term agreements on economic and technical co-operation covering two or three five-year plan periods.

Another opportunity to increase the time span of co-operation is offered by long-term co-operation programmes. The Programme of Long-Term Economic Co-operation between the USSR and Iran adopted in 1976 covers economic, technical and trade co-operation and is aimed at making wider use of natural resources and technology of the two countries for a longer perspective. It provides for co-operation in the design, construction and expansion of industrial and agricultural projects, economic co-operation in third countries, the building of projects in the Soviet Union on a compensation basis and the development of trade.^{1/} In 1978, the USSR and

^{1/} Foreign Trade, 1977, No. 12, p. 24.

India elaborated 10-15 year programmes of co-operation in key branches of the economy. These programmes specify the contents of long-term treaties and agreements on co-operation and provide a sound basis for implementing the envisaged measures.

Sectoral long-term agreements signed by the governments or the ministries of socialist and developing countries also serve to complement general co-operation agreements. That form of co-operation has yet to be adopted on a wide scale, and only a few agreements of this kind have been signed. Thus, Bulgaria and Iran have a 15-year agreement on co-operation in petrochemistry and Romania and Colombia have a 10-15 year agreement on co-operation in oil production. Broader use of long-term sectoral agreements could substantially expand industrial specialization and co-operation, especially within individual sectors of industry. In this connexion the establishment of sectoral joint commissions and committees should also be mentioned, usually at the level of ministries. A joint commission has been set up under an agreement on co-operation in the oil industry concluded between the Ministry of the Mining and Oil Industry and Geology of Romania and the Ministry of Natural and Energy Resources of Ecuador. The Bulgarian-Indian commission has set up an interministerial committee for electronics presided over by the heads of the corresponding ministries.

A system of contracts and protocols on assistance in the construction of individual industrial projects has taken shape at the level of foreign trade and production associations and enterprises. Nowadays, the majority of contracts are short-term in character and are carried out within one to two years. If the project to be built is a large industrial enterprise, agreements and contracts may be medium-term (about five years) and even longer. An agreement between Polish industrial construction organizations and the Ministry of the Engineering Industry of Colombia on co-operation in the construction of a Polish FIAT assembly plant had a term of five years (1972-1977).^{1/} An agreement between Poland's Centromor and the Algerian national company Société Nationale

^{1/} CMEA Countries and Latin America, Moscow, 1976, pp. 164, 167.

de Sidérurgie on co-operation in the building of a shipyard in Algeria is for a term of ten years.^{1/} There is no doubt that simultaneously, with the increase in the number of large projects being constructed in the developing countries, the number of medium-term and long-term agreements and contracts at the association and enterprise level will grow.

Co-operation agreements between associations and enterprises of the CMEA countries and state and private companies in the developing states as well as compensation agreements are, as a rule, of medium- or long-term duration. For example, compensation agreements between the USSR and Guinea (bauxite) and the USSR and Morocco (phosphate) have a term of 30 years.^{2/} Sometimes long-term agreements are concluded between the organizations of the CMEA and developing countries to set up mixed companies. A Romanian-Kenyan company in the mining industry has been set up for a term of 25 years.^{3/} The examples cited show that such agreements are effective instruments in rendering a long-term character to industrial co-operation between socialist and developing countries.

The development of scientific and technical co-operation in industry and the transfer of modern technology could be accelerated by the establishment of long-term contracts between research, design and educational organizations of socialist and developing countries. An example in point is an agreement between the Ministry of Science and Technology and the Academy of Sciences of the GDR on the one side and the Ministry of Industrial Development, Science and Technology of India on the other. Both sides are to carry out joint research in machine-building, electronics, chemical and pharmaceutical industry and in the introduction of scientific achievements in production. Permanent working committees have

1/ East-West Commerce, 1972, No. 7, p.6.

2/ USSR and African Countries, Moscow, 1977, p. 187.

3/ Socialist Economic Integration and Co-operation with Developing Countries, Moscow, 1975, p. 54.

been set up. The conclusion of long-term agreements between organizations and ministries concerned with research and development in the industrial field and the creation of permanent working bodies would seem to be a good basis for increasing the role of scientific and technological contacts in industrial co-operation and lending it a long-term character.

The question of the even distribution of industrial production in the world looms large in the movement for the establishment of a new international economic order. For a number of years the COMECON countries in their relations with the developing states have been contributing to the solution of this problem by helping these states to build industrial enterprises, power projects, and agro-industrial complex, to develop transportation and communication networks and to create a national scientific and technological infrastructure. The mutual interests of the socialist and developing countries prompt the need to organize co-operation between them with a view to forming, in a historically foreseeable perspective, mutually complementary structures not only at the sectoral but also at the national economic level. A new division of labour, which characterizes their co-operation, along with the principle of mutual benefit, could guarantee the specific interests of economically and industrially less developed partners.

The gradual formation of mutually complementary sectoral and national economic structures is marked by a search for the optimal variants of the international division of labour in a way that would be most efficient for both sides. The view has been expressed in the socialist countries that the gradual shaping of mutually complementary sectoral structures should proceed on a planned basis, meet the national economic interests of the partners and form an organic part of their national economic complexes. Since socialist economies enjoy sustained growth, the main way to achieve this goal can be the use of the opportunities offered by industrial co-operation with developing countries. Thus the growing demand in a particular COMECON country can be covered by industrial imports under intergovernmental agreements which guarantee fixed volume, stability and quality of the products manufactured on the basis of international specialization.

The development of industrial co-operation as well as the gradual introduction of new methods require the development of relatively new forms of co-operation. As practical experience has shown, the scope of industrial co-operation tends to broaden, and its definition is expanded to include various other aspects of economic activity, such as research, experimental and design work, assistance in the production through the transfer of technology, know-how, managerial skills as well as in the distribution and marketing of finished product. In this connexion industrial co-operation may take the following forms:

- Production of equipment and parts on the basis of an agreed division of labour between the two partners, where the end product is assembled either by one partner or by both at the same time and is marketed by the partners either individually or jointly;
- Production of an end-product where one partner uses inputs, including raw materials, supplied by the other on the basis of agreed technical specifications;
- Production of finished machines and/or equipment constituting part of a unit, production line or plant built by one of the partners;
- Joint construction and joint operation of complete plants;
- Tripartite joint ventures where industrial co-operation involves enterprises in the developing countries, the socialist countries and the Western countries.

All these forms of industrial co-operation may, as necessary, be associated with the training of industrial technicians and of research, planning and design staff as well as with the direct participation of engineers and technicians of one partner in the production process of the other. Needless to say, numerous combinations among these forms are possible, but experience has shown that the most comprehensive forms are those related to joint ventures or projects and to various kinds of tripartite industrial co-operation.

Joint ventures

Since the beginning of the present decade, joint ventures have been developing on a sufficiently wide scale in relations between socialist and developing countries. At present, the CMEA countries take part in more than 100 joint projects in developing countries. In many cases,

the developing countries prefer the establishment of joint ventures, since they consider the long-term continuous transfer of technology to be decisive. From this point of view, a joint venture seems to offer more guarantees than simpler models of industrial co-operation. Moreover, a joint venture also facilitates the procurement of funds for development. Joint ventures can solve more efficiently the problems of marketing, since the partner companies also usually create markets for the products of the joint ventures or can place at the latter's disposal their own sales network. Besides, the Government and enterprise credits granted to the developing countries can also be utilized more efficiently within the framework of joint ventures, and the adjustment of industrial sectors between developing and socialist countries can occur much more in accordance with medium- and long-term economic plans, if compared with the uncertainties lying hidden in ad hoc business transaction practice.

According to the practice hitherto, ventures comprising partners from two countries have come into existence, with several participants on either side (with one general contractor for either party). Probably in the future the co-ordination of the activities of several socialist countries or several socialist enterprises in the developing countries will become increasingly important. In joint ventures, consideration should be given to production, research and development systems. It is a fundamental viewpoint that a joint venture should comprise all phases from research and development through the exploitation and processing of raw materials to marketing (including transportation and distribution). In many cases neither the know-how nor the technology can actually be applied directly, without alteration and adaptation to the conditions of the developing countries, and this adaptation should be carried out by the joint venture project. Consequently, a joint venture in a developing country is always a complex activity; it is supposed to act flexibly and efficiently in a system of horizontal and vertical relations.

Although the share of the socialist countries' participation in the capital of joint companies varies over a wide range, the most predominant are companies where socialist partners hold up to 49 per cent of the capital. The participation of socialist countries in joint production companies

covers a wide spectrum of industries since they try to meet the requests of the partner countries for co-operation in any sector where joint societies can accelerate national industrial development.^{1/} They are also prepared to relinquish their property rights in favour of the partner country as soon as there is no longer a need for the given enterprise to continue as a joint company. That provision is reflected in the statutes of many companies. For example, when the Hungarian-Sri Lanka company for the production of electric vacuum instruments (Asian Electrical and Mineral Industries Ltd.) was set up, it was envisaged that after the initial five-year period the Hungarian partner would offer its share of the capital for sale to local firms. The socialist countries contribute to the capital of a joint company in both money and in kind. In most cases the socialist countries contribute machines and equipment, technical documentation, raw and other materials necessary for the functioning of the society, as well as technical assistance and the transfer of modern technology.

In setting up joint companies in developing countries, profits are not the decisive consideration for the organizations of the socialist countries, although they do, of course, want their foreign operations to be profitable. Unlike Western countries, socialist states do not export their capital to the developing countries in order to derive profits; the main aim of their participation in joint companies is to support the efforts of the developing countries to build modern industries. Other important considerations are to create additional opportunities for expanded trade in industrial equipment, to adapt to local conditions and to meet the request of developing countries to use this particular form of co-operation. The socialist countries receive their share of the profits either in cash or as the part of the output of the joint enterprise. The enterprise is usually managed on a parity basis. The participation of the socialist countries' representatives in managing a joint enterprise, in drawing up technological programmes and in production makes it possible to co-ordinate the company's performance with the general line of industrial co-operation between the two partners.

^{1/} Joint production companies with the participation of the socialist countries have been set up in mining, engineering, electrical engineering, chemical and light industry, building and design, in the transfer of know-how as well as in agriculture, fishing, banking and transport.

Joint ventures are rapidly developing in machinery production and in metallurgical industries. Joint companies are often engaged in the assembly of machines and equipment based on units and parts supplied by socialist countries. For example, Le Moped Marocain, set up by the Bulgarian Organization Balkancar and the Moroccan firms Melaun and Zeman, assemble Bulgarian mopeds. The Polish-Nigerian Motor Assembly Co. assembles cars from parts brought from Poland. Another Polish-Nigerian company assembles agricultural machinery from units and parts supplied by Poland. A Czechoslovak-Indian company assembles the Zetor 2011 tractor from Czechoslovak parts.^{1/}

So far most joint companies have been producing technologically unsophisticated goods for domestic consumption and for export. There is a noticeable trend, however, for these goods to become more sophisticated and to include machine-tools, power and textile equipment. The range of these branches is constantly expanding. For example, at the meeting of the Polish-Indian commission in December of 1976 a decision was made to launch joint ventures in shipbuilding, textile machine-building, the manufacture of spare parts and units for the motor and tractor industries.^{2/}

A number of companies have been set up in the chemical industry, mainly pharmaceuticals. Since 1971 the Bulgarian-Indian firm Kureval Ltd. has been producing gamma globulin and albumin from Indian raw materials. The Hungarian-Indian Themis Chemicals Ltd., where the Hungarian Medimex and the Indian Themis Pharmaceuticals take part, produces vitamin B₁₂, meeting 25-30 per cent of India's demand.^{3/} The joint firm Imarcel Chemical Industry Ltd. in Nigeria produces vitamin B₁₂ following Hungarian technology.

In the field of light industry, a number of companies were set up for leather processing and marketing both in the local and socialist countries' markets. Czechoslovakia's Investa and the Iranian firm Mali Shu founded a mixed leather processing enterprise in Iran. A joint Czechoslovak-Uruguayan firm Karasur markets leather goods in Czechoslovakia.

1/ The Peoples of Asia and Africa, 1976, No. 6, p. 13.

2/ NIF Bulletin, New Delhi, 1978, p. 431.

3/ The Peoples of Asia and Africa, 1976, No. 6, p. 13.

All these enterprises help to transfer modern technology to the industries of the developing countries and contribute to the training of local personnel. In the statutes of **these joint enterprises**, provision is made for the training of skilled workers and specialists both on the spot and at the industrial enterprises and research institutes of the socialist countries. For example, Hungarian enterprises and research institutes which play the leading role in establishing joint industrial companies and engineering consultancy firms in developing countries, namely Medinvest in Hungary, in addition to training personnel on the spot, offer the opportunity to specialists from the partner countries to acquaint themselves with new **technologies and to take part in research** at their enterprises and laboratories.

There are still many problems and difficulties in the work of the joint enterprises **launched by socialist and developing countries**. Many legal and financial matters connected with their activity (bank guarantees, the system of subcontracts, the share of participation in property, etc.) are still at the development stage. The sides should make efforts to develop methods of co-ordinating the activities of joint companies with the planned economies of the socialist countries, on the one hand, and the multi-sectoral economies of their partners, on the other. Political and economic instability in some developing countries, insufficient knowledge of local conditions, and organizational difficulties have hindered the work of some joint companies and some of them have even been liquidated. Nevertheless, the examples mentioned above demonstrate that **given the right choice partners, sufficient business experience and better knowledge of market as well as the absence of discrimination, joint ventures may be an effective vehicle for industrial co-operation between socialist and developing countries.**

Tripartite co-operation

Intensified co-operation between socialist countries of Eastern Europe and advanced market economies has given rise to a new phenomenon in industrial co-operation with developing countries. The best illustration of this can be found in the specific case of tripartite industrial co-operation. By the mid-1970s, 109 industrial projects in 32 developing countries had been implemented or were in the process of implementation,

where the organizations from the CMEA countries and from Western countries took part. The countries which have displayed the greatest interest in tripartite co-operation are India and Iraq (12 projects each), Morocco (9), Iran (7), Egypt (6), Syria and Nigeria (5 each). The following figures may illustrate the growth in tripartite joint ventures: 30.5 per cent of the total number of tripartite industrial co-operation contracts were concluded in the period 1965-70, while 69.5 per cent were concluded in the period 1971-74, with 41.7 per cent of these in 1973-74.^{1/}

The growing scope of tripartite industrial co-operation is the result of newly emerging convergent incentives which complement existing positive factors. In the first place, industrialized and developing countries, being conscious of the need to seek effective interdependence, have already manifested priority interest in, or developed policy flexibility for, integrating industrial co-operation within the framework of comprehensive co-operation.

Existing business relationships between Eastern and Western enterprises can provide a strong motivation for taking advantage of emerging opportunities for co-operation in developing countries. Tripartite co-operation would seem to be equally profitable with respect to substantive tenders - which permit a variety of arrangements between partners - in view of the international competition exerted by a large number of competent enterprises and the often decisive advantage that lies with a reliable bidder guaranteeing the shortest period for completion of the work.

Tripartite joint ventures in developing countries could help to maximize the expansion and geographical diversification of export sales according to the requirements of foreign partners. Firstly, the joint venture could take full advantage of the fact that **socialist enterprises do not incorporate autonomous restrictive clauses with respect to marketing in third countries.** Secondly, modern outward-looking industrial enterprises have to pay increased attention to such matters as the analysis of demand, product specifications and quality of product, dynamic marketing and export promotion, pricing strategies and after-sales servicing. Enterprises in Western countries, which have long experience in supplying diversified foreign markets, could

^{1/} TAD/Sem, 15 November 1975, Documents 1-2, pp. 11-12, 15.

usefully contribute in guiding and helping the tripartite joint venture. Thirdly, the association with a Western partner could also effectively assist, through the established distribution network, in marketing the share of the joint venture's output committed to the Western partner and/or to the world markets and hence secure for the joint venture a valuable cost advantage. Such marketing assistance could, for instance, be of key importance in a decision to install in a developing country a "superplant", i.e. an enterprise which technically and economically can count on a large, if not world-scale market. After-sales service is of particular importance in the case of manufactured consumer goods, and could probably be co-provided, at market standards, by the distributors of the Western partner. Considering possible developments over the medium term, changing conditions on world markets, namely the structural shift from the traditional situation of acute competition among suppliers to a new situation predominantly characterized by tight supplies, the opportunity offered to the Western foreign partner of becoming **the exclusive agent for the said exports to Western markets** could become a motivation for participation in a tripartite industrial joint venture.

Another motivation in favour of the tripartite joint venture may be the opportunity to gain access to the market of the developing country concerned and possibly to third countries' markets already explored by the Eastern or the Western partner. Conversely, the Western partner might aim at taking advantage of the bilateral trade agreement between the developing country where the joint venture is to operate and the socialist country, particularly if the product or products manufactured by the tripartite joint enterprise are reserved for import exclusively from the developing countries.

The joint venture operating in the developing country should expect, wherever appropriate, that a fixed percentage of its output will be continuously exported on the basis of firm commitments made by the partners wishing to meet their production requirements or to sell the products directly or indirectly in their domestic markets. While international specialization expands the import requirements for those goods, the production of which may be progressively reduced, it prevents or discourages import commitments related to the selected branches of domestic industrial

sectors which specialize simultaneously in the production of the respective capital equipment, intermediate and finished manufactures. In this case the tripartite joint venture has an inherent advantage over bilateral industrial co-operation arrangements, namely that it increases the contractual possibilities for a Western partner. Furthermore, the joint venture may ensure the marketing of exports through existing joint ventures abroad where all or part of the partners have an interest. In general, such complementary marketing arrangements strengthen the soundness of the financial plan of the enterprise and consequently can support decisions - including those pertaining to related international credit - to create new industrial plants in the developing countries.

Often modern technology is not available under licencing or other arrangements. Another bottleneck which can prevent industrial enterprises in developing countries from importing capital equipment from the socialist countries of Eastern Europe, or using it for export markets, is that the imported technology applied by the socialist country may be subject to territorial restrictions imposed by the original licensor. The tripartite joint venture formula can make it possible to reach satisfactory arrangements with respect to the right to exploit the industrial property concerned in the interested developing country as well as in other developing countries or third countries. Furthermore, by providing partners from industrialized countries with an opportunity to use and benefit from their technology, the tripartite joint venture gives the foreign partners appropriate motivation and brings the further advantage of a continuous flow of technological information.

For this last reason, the tripartite joint venture may be particularly attractive with respect to industrial products or lines of production which are subject to rapidly changing technologies, provided that the partners are in a position to ensure a reasonably continuous flow of technological transfer. Large research and development firms generally favour participation in joint ventures abroad which are viewed as producers of a marginal but continuous increment of income **returning on substantial research and development investments.**

The most promising form of tripartite co-operation is the invitation by socialist countries to partners from Western countries to supply certain types of machinery and equipment for the construction of individual projects in the Third World countries. For example, the Soviet Energomachexport supplies a 310,000-kWt generator for the Costanera power station in Argentina, while instruments are to be supplied by the French firm Bely and feed pumps by the firm KSB from the FRG.^{1/} Sometimes equipment is supplied jointly by organizations and firms from several socialist and Western countries, as in the case of the construction of iron and steel works in El-Majar (Algeria), where about 20 Belgian, French and Italian firms take part. Equipment for the oil refinery built by Czechoslovakia's Technoexport in Iraq was partly supplied by the USSR, Yugoslavia, United Kingdom, France and Austria. Co-operation in the supply of equipment makes it possible to cut the time and costs of deliveries, and improve the quality and technological performance of the equipment supplied.

Sometimes the organizations of the socialist countries and the firms of capitalist countries co-operate in the building of individual projects in developing countries by dividing the work load between them. Some of the structures in the building of a power complex in Morocco with the assistance of the Soviet Union's Energomachexport were designed by specialized Western firms. A French firm has designed and built industrial premises in Syria where a lamp factory has been erected by the Hungarian organization Tungsram. Poland's Instalexport is helping to build several installations at the oil refinery in the Congo (Brazzaville) on commission of the Austrian firm Voest Alpine and in conformity with that firm's technical documentation. This form of tripartite co-operation is useful in speeding up the implementation of a project and improving the quality of work.

Socialist and market-economy countries are beginning to co-operate in financing the construction of individual projects in the developing countries. The USSR Bank for Foreign Trade and the consortium of Western banks headed by the London South American Bank (BOLSA) jointly financed the construction of a power station in Capivara, Brazil. Since part of

^{1/} Foreign Trade, 1977, No. 6, p. 43.

the credits of the IIR's Special Fund are made available in convertible currency, the recipient developing country may combine supplies from socialist countries with those from capitalist countries, which means that this Fund may become useful as an instrument in the realization of tripartite projects. The resources of regional development banks and of the oil exporting countries could also be used in tripartite co-operation projects. Iran, for example, has made available \$85 million credit to finance the construction of two textile factories in Afghanistan in which the Soviet **Technoexport** and the **Unionmatex** from the FRG are also taking part.^{1/}

Early instances can be cited on joint participation of socialist and Western countries in specialization and co-operation of production with the developing countries. The Brazilian firm **Malves** has organized assembly of tractors from Romanian-made chassis and engines supplied by **Mercedes-Benz** from the FRG. Expansion of this type of contacts contributes to the growing division of labour among all the participants on a long-term basis.

Various forms of tripartite co-operation become gradually more and more intertwined and the number of participants has been increasing. For example, during the construction of two power stations in Argentina the Soviet Union's **Energomachexport** supplied two units, the French firm **Beily** supplied instrumentation and the **Deutsche Baekboak** and **KSB** from the FRG supplied coal dust boilers and feeding pumps respectively, while the whole project was financed by the consortium of the USSR Foreign Bank for Foreign Trade and US and British banks. In the expansion of an oil refinery in Jordan carried out by the Romanian organization **Industrialexport**, licensing and oil refining know-how were made available by the US firm **Universal Oil Products**. The project design was made in collaboration with the British firm **Procon**, and the Dutch firm **Kinetics Technology International** was involved in the turn-key construction of one of the plants. This type of tripartite venture makes it possible to use the advantages of co-operation in the most comprehensive way and it can be expected to be practiced on a growing scale.

A promising form of tripartite co-operation is a special consortium.

1/ Middle East Economic Development, 1977, No. 5, p. 15.

The Soviet organization Energomachexport, the Hungarian Transelectro, the Moroccan STRA and EVT from the FRG set up a consortium to take part in bidding to build power projects in Morocco. Polimpex (Poland), Siemens (FRG) and Uhde (Morocco) formed a consortium to assist in the development of the chemical industry in Morocco, while Budimex (Poland), Krupp (FRG) and Kobar (Iran) set up a consortium for co-operation in Iran's oil industry. Such consortia help to maintain constant links between partners and contribute to deeper specialization among them. For instance, in the above-mentioned consortium in Iran the Polish side specializes in erection, the Iranian side in earth-moving and construction, while the machinery and equipment are supplied from the Federal Republic of Germany.

There are some instances of tripartite joint ventures in which firms from socialist, Western and developing countries take part in the shareholding. An example in point is a Hungarian-Nigerian-Swiss pharmaceutical company where Hungarian and Nigerian sides hold 40 per cent of the shares each and the Swiss side 20 per cent.

Most of the tripartite co-operation projects at present are in the manufacturing and power industries. In view of the serious energy and raw materials problems and the great cost of projects in these sectors, it is worth studying the question of the most feasible forms of tripartite co-operation in the extraction and processing of fuel and raw materials, including tripartite compensation agreements. For the future, tripartite co-operation could also be used in the building of regional industrial projects as the part of economic integration schemes of the developing countries.

Promotion of the tripartite form of joint ventures requires harmonization of industrial co-operation methods applied by enterprises in the socialist and the developed market economy countries with those of enterprises in the developing countries. As more tripartite joint ventures are formed and put into operation, precedents will be established that will help to define and develop terms and conditions for joint ventures. Until this phase is reached, it is important that every variable is clearly defined, negotiated and included in the tripartite contract. The reward

of prior careful consideration of all foreseeable operational aspects will be the assurance that, by minimizing misgivings, the reputation of this relatively new form of international industrial co-operation will reflect its objective merits.

A substantial role in promoting tripartite industrial co-operation can be played by the United Nations Industrial Development Organization, in particular through its system of consultations.

Industrial consultations

The system of consultations on industrial sectors was established by UNIDO in 1976. Since then some of the European socialist countries, in particular Bulgaria, Czechoslovakia, Hungary, Poland and Romania, have been taking part in these consultations. The delegations from Poland participated in all the consultations concerning iron and steel, fertilizers, leather industry and vegetable oils. During these meetings Polish delegations approached the developing countries with the offers of co-operation, indicating specific fields where Poland's experience might be of use to the developing countries. One of the offers was presented in the course of Innsbruck consultation on the leather industry. Polish experts also participated in the preparation of UNIDO documents concerning the iron and steel industry. A paper on coking coal, which constitutes an important basis for the second consultation meeting on iron and steel, was prepared.

Hungary, represented by the Hungarian Research Institute for Iron Industry and by Metalimpex, also participated in the consultations on iron and steel; the Hungarian Design Office for the Chemical Industry and Agro-impex participated in the consultation on fertilizers. The purpose of these meetings was primarily to get acquainted with both global problems and the industrial and commercial specialists of the respective branch and not to conclude concrete co-operation agreements. Consequently, no such results were achieved as would show a concrete number of co-operation deals concluded: the actual establishment of co-operation is obviously a much more complicated and time-consuming process.

The consultations held under the aegis of UNIDO up to now have no doubt brought about a certain positive effect. The countries which participated in the meetings consider the system of consultations a measure for modifying the performance of the market mechanisms and a new and promising tool for broadening international co-operation. The system of consultations could help to share experience among countries and to provide governments with guidance regarding their plans, programmes and policies for the long-term development of industry. Industrial consultations should also help to identify various possible solutions applicable to specific sectors, which later might be covered by bilateral agreements. In global terms, it might be considered an instrument for rationalizing industrial growth process and realizing the developing countries' aspirations towards increasing their share in world industrial production. The system of consultations may constitute a useful mechanism for promoting industrial co-operation among countries at different levels of development and with different economic profiles. This system, however, may tend towards the proliferation of conferences, meetings of experts and working groups. It might turn the newly created forms of information exchange into a costly and rather premature search for a multilateral system of undertaking decisions upon questions within the competence of individual governments. The industrial consultations system should develop in the direction laid out in the Lima Declaration, towards the intensification of information exchange concerning the growth of supply and demand, accessibility of production elements, their costs, possibility and conditions of investment, investment tendencies, staff education, etc. Within the system of consultations, support should be given to the activities aiming at the expansion of information, planning and forecasts in order to facilitate decision-making disposition centres in particular countries in respect of industrial co-operation with other countries.

At the same time, it is worth taking into account that at the consultations held hitherto, not every CMEA country which may have interests in co-operation has been represented. Therefore, it is necessary in the interest of later consultations to improve information so as to involve countries in the preparatory work and permit the participation in the consultations of responsible industrial organizations which are well

prepared and ready to take up definite positions. It will undoubtedly help industrial consultations to become a permanent forum for regular and useful contacts and dialogue between industrial circles and experts from developing countries, socialist countries and developed market-economy countries.

Chapter VI

METHODS OF AND PROCEDURES FOR IDENTIFYING MUTUAL INTEREST

AND BENEFITS OF CO-OPERATION

A general basis for identifying mutual benefits derived from industrial co-operation between developing and socialist countries is provided by the fact that the two groups of countries have identical or similar interests in the main areas of economic and industrial development. An important factor is the readiness of socialist countries to help the developing states to overcome their backwardness, to speed the rate of economic growth, and to create modern industry.

Although the interests of the two groups of countries do not conflict, industrial co-operation between them remains a complex social, economic and technological phenomenon, and as such it can be correctly assessed, if only all the needs of the participants are taken into account. The comprehensive character of co-operation and the need to meet the interests of every participant make it highly unlikely that a single universal criterion could be found to identify areas of mutual interest and to assess the effectiveness of measures being carried out or planned.

In identifying trends and objects of industrial co-operation, it would be useful to divide it into two spheres. If its aim is to build an industrial enterprise or group of enterprises intended exclusively for meeting the domestic demands of a developing country, it is in effect a "one shot" operation which does not do much to stimulate the stable division of labour between the partners. This does not mean, however, that such projects should be abandoned, since they help developing countries to pursue a policy of substituting imports with domestic production. Industrial co-operation of this kind was more typical of the early period of the establishment of relations in the 1950s and mid-1960s.

Since the second half of the 1960s there has been a growing trend towards co-operation in building industrial enterprises geared not only

to meeting domestic requirements but also to exports, including those to the partner country. This model of co-operation is favoured both by the general rise in the industrial level of a number of third world countries, which are adopting an export-oriented strategy of industrial development, and by the growing demand of the socialist countries for certain types of raw materials, fuel and manufactured goods. This trend of co-operation offers a greater stimulus for a stable division of labour and, most importantly, spreads it from an inter-sectoral to an intra-sectoral level. Because interests in this area coincide, this trend of industrial co-operation can be expected to develop rapidly.

In the light of the aforementioned, when organizing production co-operation both sides need to determine an optimal balance between enterprises built to satisfy domestic demands and export-oriented industries. The CMEA countries believe that co-operation should lead to the creation of an industrial export sector that is not an enclave, but an organic part of the economic complex of a developing country formed on a modern basis.

In organizing industrial co-operation, the parties concerned face the need to evaluate its impact on their national economies. Economic benefits resulting from involvement in industrial co-operation are many-sided. They are not limited to the effects in a given branch of co-operation, and hence it is difficult to express all the benefits in quantitative terms. Nevertheless, there are some general guidelines which can be of some use in this respect.

Every component part of economic efficiency (economy in investments, reduction of production costs resulting from the growing volume of output, etc.) initiates a whole chain of benefits beyond the sphere of external economic activities. For instance, by buying (or receiving in the form of foreign technical aid) new technology for producing synthetic fibres, a developing country counts on some important potential side-effects in addition to the direct benefits of such a transaction. New technology, if properly used, will stimulate the growth of efficiency in textile, shoe, tyre and some other industries consuming synthetic fibres, and improve the quality of articles and their durability. These effects are usually attributed to the given industry, but their appearance has to a greater extent come about as a result of concrete external economic relations.

The impact of external factors on the economy grows with the expansion of foreign trade, more active participation in the international division of labour and growing international production specialization and co-operation. Under such conditions the best results in enhancing the efficiency of industrial co-operation on both sides can be achieved if the partners jointly work out and co-ordinate a set of measures aimed at expanding this co-operation and increasing its efficiency for each participant.

The mechanism of identifying mutual interests and assessing the effectiveness of industrial co-operation on a bilateral basis has on the whole been formed and is functioning successfully. It comprises meetings of the heads of state and government, a system of consultations at various levels, inter-governmental agreements and intergovernmental commissions for economic and scientific and technical co-operation, inter-departmental agreements, contracts among planning organizations, and co-operation at the level of enterprises, research and design institutes. These provide an organizational framework for determining both the areas of co-operation and concrete measures for its implementation. The most likely trend in the improvement of this mechanism in the COMECON countries would seem to be the increased role of sectoral ministries, industrial associations and major enterprises in preparing suggestions on ways to expand international co-operation, including developing countries. Active participation of the immediate producers in all stages of the preparation, assessment and realization of industrial co-operation projects would contribute to the growth of its volume and would expedite the search for optimal solutions and help to constantly improve the economic mechanisms, especially at the micro-level.

The mechanisms governing multilateral industrial co-operation are not yet sufficiently ramified and are still at the initial stage. It needs to be expanded and improved if it is to become an efficient instrument in the search and assessment of areas of mutual interest on a multilateral basis and in the development of multilateral forms of industrial co-operation. It should be borne in mind that a complex mechanism of international industrial co-operation can hardly be created speculatively without thorough study of the real needs and potentials of the sides. It can evolve gradually as prerequisites for it ripen in both groups of countries.

The evaluation of mutual interest as well as of the efficiency of industrial co-operation is connected with a number of difficulties. The main reason is the imperfection of the mechanism for calculating costs and effects. As far as co-operation between the socialist and the developing countries is concerned, one can add to the common difficulties in assessing efficiency those caused by the differences in the systems of evaluation in the two groups of countries. For this reason, when attempting to estimate the efficiency of certain activities in the field of industrial co-operation, sometimes, as practice indicates, there may arise situations where mutual benefit is insufficiently proved, mainly due to the difference in approach and criteria applied in estimating the efficiency. Given the prevailing socio-economic and organizational-institutional structures, this is inevitable. This difference has strong influence on the possibility of obtaining consistent evaluation. The substitution of the economy-wide macro-approach for the approach of the individual firm is a typical example of difference in the system of evaluation.

The existing conditions, including the reasons for co-operation, make it necessary for each party to estimate the eventual efficiency of its participation in the various alternatives of industrial co-operation anticipated by using methods for efficiency evaluation adopted in the country. Obviously, the effect for one country will be influenced by benefits accruing to the other country (credit conditions, scientific and technical assistance, offering favourable prices to the imports of industrial articles from developing countries with a lower technical level, etc) This circumstance expresses directly the nature of co-operation between the socialist and the developing countries; moreover, it explains how unreasonable it is to seek and estimate efficiency totally for the participants in a given project, prior to choosing a variant of a decision which maximises the total effect of these activities.

The general advantages of co-operation between the two groups of countries may be considered in the light of the following aspects: the first aspect mainly concerns the structural and qualitative influence which economic - and particularly industrial - co-operation may have on the implementation of economic development plans. The criterion applied

should be the degree to which the targets of the current and long-term economic plans are affected. The second aspect is mostly connected with the economizing effect provided by this co-operation while solving the complex of economic and social objectives. This leads to the conclusion that mutual benefit is to be considered within a broader context than efficiency. Efficiency is a main component of the notion of mutual benefit. This also requires the respective estimation of efficiency (such as mutual benefit, not only with direct indicators, but also with indirect ones, which measure "the effect" on a macro-economic scale).

The obvious advantage of this approach is that the criteria for evaluation of the economic benefit in this case are not the interests of the individual economic unit, but of the national economy as a whole, and not only current but also lasting interests. From the standpoint of the production unit, the approach mainly takes into account the immediate effect and does not take into consideration the indirect, supplementary, structural and other effects, many of which cannot be directly measured in quantitative terms. However, owing to their great importance to the national economy, they represent substantial components of the total benefits accruing.

As far as the elements of the evaluation mechanism are concerned, foreign trade prices, credit and credit conditions, delivery terms for goods and equipment, customs duties, preferential conditions, etc. are of primary importance. Practice has shown that all these instruments are used in a way which promotes the fulfilment of the objectives of this co-operation, firstly on the part of the interests of the developing countries. In the price, credit, foreign exchange, financial and trade conditions, under which industrial co-operation between the developing and socialist countries is carried out, the new type of foreign economic relations created by socialism as an economic system is expressed.

The choice of co-operation variants based on mutual economic advantage for the partners presumes that advantage is taken of evaluation methods, criteria and indicators, which may provide a reliable assessment of the efficiency from the standpoint both of the national economy as a whole and the individual enterprises. In this connexion, the evaluation of the efficiency of industrial co-operation between socialist and

developing countries should take the following basic points into consideration:

(a) The contents and criteria of the efficiency of foreign economic relations, including industrial co-operation, are identical with those of social production: the increase of GDP per labour unit and decrease of total costs.

(b) Efficiency of industrial co-operation, as well as of economic co-operation in general, cannot be assessed by a single indicator, since any kind of undertaking in this area gives rise to various effects - direct and indirect, in value and in kind, current and long-term, micro- and macro-economic, as well as structural. A system of indicators is required which will reflect adequately the influence of co-operation on production in general, on its efficiency, structure and rates of growth. But the establishment of such a system depends on the solution of some methodological problems, since many of the effects cannot be measured quantitatively. At the same time, they may be of decisive importance to the final total evaluation (typical in this respect is the long-term structural effect).

(c) When evaluating efficiency of industrial co-operation in developing countries, priority should be given to the following additional factors:

- Setting up new lines of production or industrial branches;
- Rate of industrial development as one of the components of the overall economic and social development;
- Raising the technical and technological level of production;
- Replacing imported goods with local products and, in this relation, their impact on trade and payments balances;
- Promoting the export-oriented sector and increasing export resources,
- Increasing the sources of capital accumulation;
- Increasing employment, increasing the skill of the labour force;
- Scales and intensity of absorption of the natural resources in the economic turnover;
- Long-term structural influence of the activities carried out.

Most of these indicators assess effects which are directly related to the general effect, expressed in terms of the growth of social labour productivity and increase in the national income.

(d) The measurement methods (for both costs and effects) should be based on the macro-economic approach, when evaluating efficiency. This requirement is of particular importance to the developing countries, since industrial co-operation can contribute, to a maximum degree, to the fulfilment of the strategic targets of the economic development of the developing countries, if it is assessed consistently. The policy of intensive structural changes and balanced development of the economy presume a macro-economic approach towards the solution of relevant questions, including those in the field of foreign economic relations, when selecting variants of co-operation. It is natural that the national economy's efficiency encompasses the efficiency of individual projects, but the evaluation of the final total result is arrived at by taking into account a number of additional effects that remain beyond the scope of the criteria used in the micro-economic approach. It is the national economy's macro-approach which corresponds to the above global criteria of the economic benefits, derived by developing countries from industrial co-operation with the socialist states. This co-operation, be it individual or general, should contribute to the implementation of the long-term economic strategy for industrialization.

In the countries where centralized planning is used, the centralized determination of the structural pattern in the national economy favours the consistent application of the national economy approach in elaborating industrial co-operation and in the evaluation of the global effect from a given variant. With this sort of approach, it is not very difficult to find out the mutual benefit for the contracting sides, since the basis for estimation incorporates a good deal of various effects, influences, etc., most of which are not taken into consideration in the micro-economic approach.

The conditions, the nature and the motives governing industrial co-operation between the socialist and developing countries presuppose an autonomy of evaluation (both sides evaluate their own efficiency), made on the basis of the evaluation adopted in the respective countries. Evaluations thus obtained are taken into account by the contracting parties when preparing an agreement. They are used as summary criteria for the economic benefits for the contracting parties in specifying

the final variants of decisions for activities related to industrial co-operation. Practice shows that the agreement on mutually beneficial variants of co-operation encounters fewer problems when the evaluation of the efficiency of a proposed variant is made on a sufficiently broad basis.

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Agreement
on Cooperation between the Council
for Mutual Economic Assistance and the Republic of Iraq

The Council for Mutual Economic Assistance and the Republic of Iraq,
Considering their mutual desire to deepen international labour division
between the CMEA member-countries and the Republic of Iraq,

Seeking to promote multilateral economic, scientific and technological
cooperation between the CMEA member-countries and the Republic of Iraq based
on the principles of equality, mutual benefit and non-interference in each
other's affairs,

Convinced that the development of such cooperation would contribute
towards accelerating economic, scientific and technological progress in the
CMEA member-countries and the Republic of Iraq and the attainment of the
goals set by the United Nations Charter,

Taking into account the provisions of the Charter of the Council for
Mutual Economic Assistance confirming the readiness of the CMEA member-
countries to develop economic relations with other countries,

have agreed as follows:

Article 1

1. The objective of the present Agreement is to promote multilateral
economic, scientific and technical cooperation between the member-countries
of the Council for Mutual Economic Assistance and the Republic of Iraq.

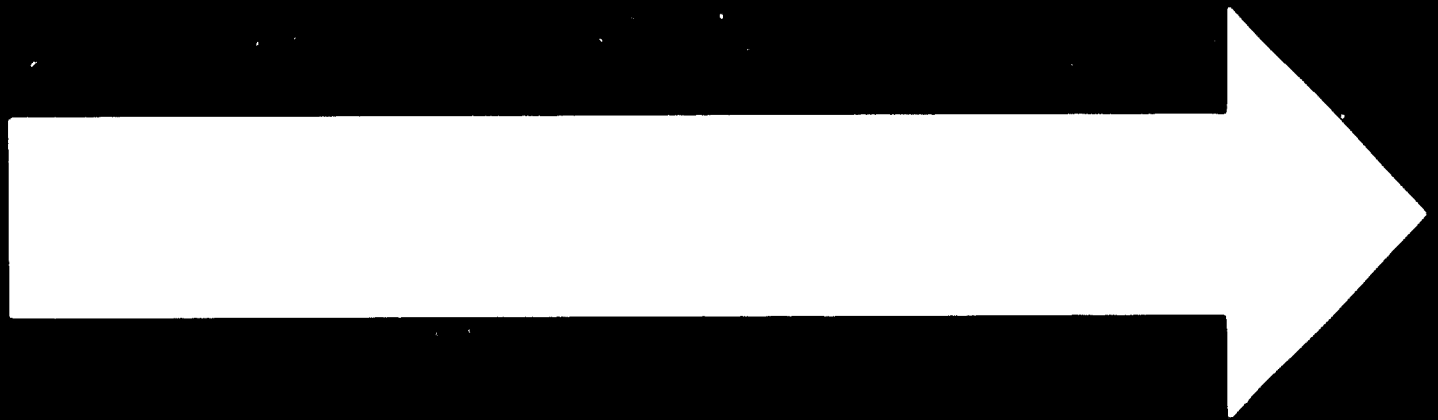
2. Cooperation under the present Agreement will be carried out on
questions of mutual interest to the CMEA member-countries and the Republic
of Iraq in diverse fields of economy, science and technology.

Article 2

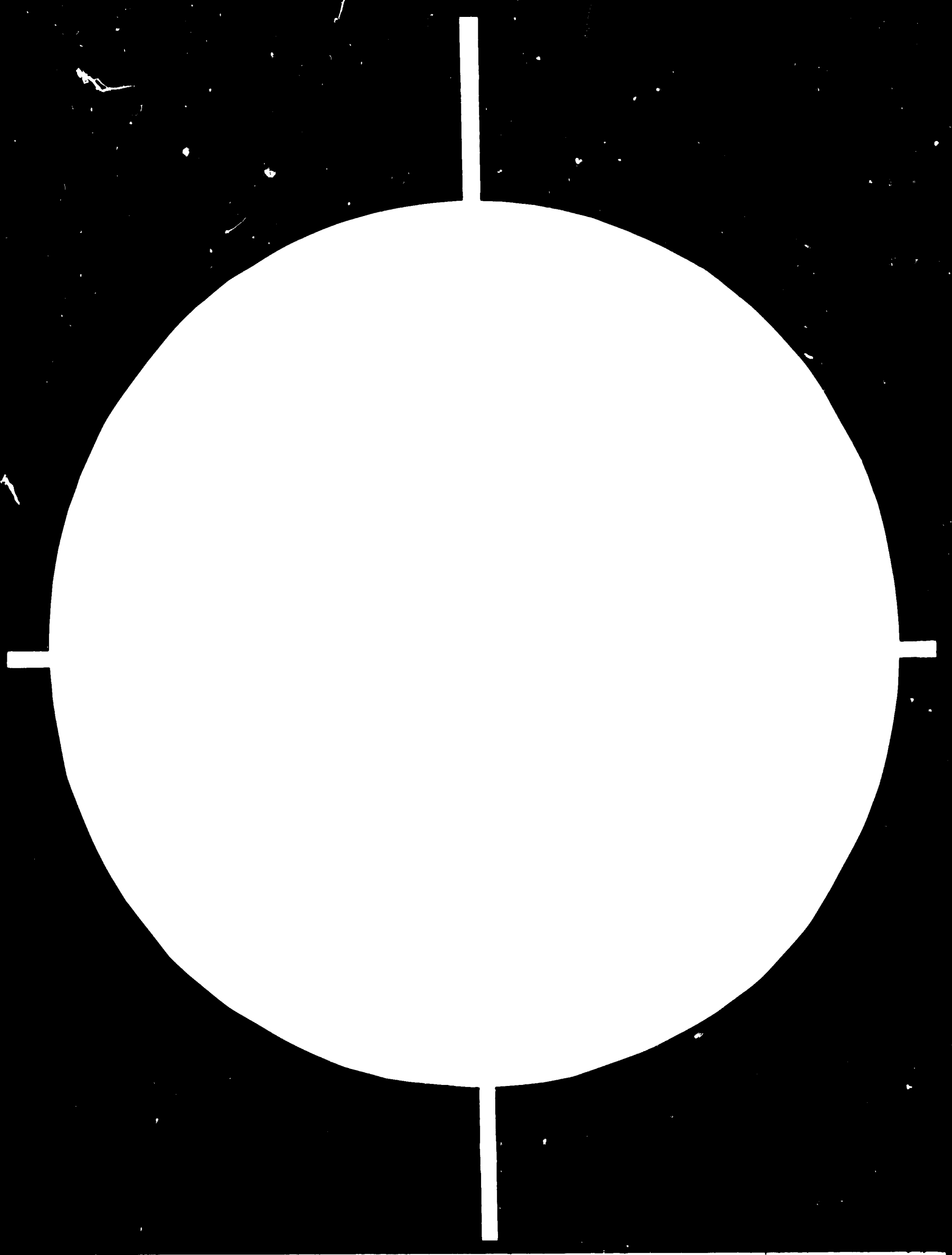
1. A Mixed Commission of the Council for Mutual Economic Assistance
and the Republic of Iraq, hereinafter referred to as the Mixed Commission,
shall be set up for the purpose of systematic study of the possibilities
of multilateral economic, scientific and technological cooperation referred
to an Article 1 of the present Agreement.

2. The Mixed Commission shall be composed of representatives of the
CMEA member-countries appointed by the corresponding bodies of those

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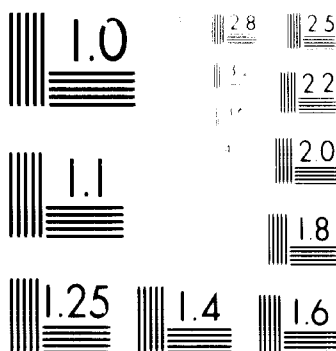


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countries and representatives of the Republic of Iraq appointed by its corresponding bodies.

Article 3

1. For the purpose of discharging its tasks the Mixed Commission may make recommendations to the CMEA member-countries and the Republic of Iraq on questions of economic, scientific and technological cooperation and take decisions on organizational and procedural matters of its work.

2. The Mixed Commission adopts its recommendations and decisions with the consent of the interested CMEA member-countries and the Republic of Iraq.

3. The recommendations of the Mixed Commission adopted by the interested CMEA member-countries and the Republic of Iraq shall be implemented by multilateral and bilateral agreements that will be concluded between themselves, their bodies, organizations and institutions or in accordance with some other mutually agreed procedure.

Article 4

The CMEA member-countries and the Republic of Iraq shall render the necessary assistance to the Mixed Commission in its work and submit to the Mixed Commission material and information necessary for the discharge of its tasks, subject to agreement within the framework of the Mixed Commission.

Article 5

The Mixed Commission shall perform its functions in accordance with the Rules, which form an integral part of the present Agreement.

Article 6

The provisions of the present Agreement shall not affect the obligations of the CMEA member-countries and the Republic of Iraq stemming from their membership in international, including regional, organizations and from international agreements signed by these countries and the Council for Mutual Economic Assistance.

Article 7

The present Agreement shall not prevent any of the CMEA member-countries or the Republic of Iraq from having direct contacts and signing between them bilateral agreements in the field of economy, science and technology outside the framework of the present Agreement.

Article 8

Questions that may arise in connection with the implementation of the present Agreement shall be settled through negotiations between the representatives of the Council for Mutual Economic Assistance and the Republic of Iraq.

Article 9

As experience is gained and multilateral cooperation expanded and deepened between the CMEA member-countries and the Republic of Iraq, measures shall be taken to further improve and develop the organizational forms, ways and methods of this cooperation.

Article 10

1. Following its approval by the CMEA member-countries, the present Agreement is subject to endorsement by the Council for Mutual Economic Assistance and the Republic of Iraq.

The Agreement shall come into force on the day instruments of its endorsement are exchanged.

2. Subject to mutual agreement between the Council for Mutual Economic Assistance and the Republic of Iraq, the present Agreement, including the Rules for the Mixed Commission, may be amended or supplemented in accordance with the procedure stipulated in Paragraph 1 of the present Article.

Article 11

1. The term of this Agreement is unlimited, with each Contracting Party, however, being able to cancel the Agreement with notification of other Contracting Party at least six months in advance.

2. The withdrawal from the present Agreement by any of the Contracting Parties shall not affect the rights and obligations flowing from the agreements concluded between the CMEA member-countries and the Republic of Iraq, their bodies, organizations and institutions in accordance with Paragraph 3, Article 3 of the present Agreement.

Done at Moscow on 4th July, 1975 in two original copies, in the Russian and Arabic languages, both texts being equally authentic.

For the Council for
Mutual Economic Assistance

For the Republic of Iraq

/ Signatures /

to the Agreement on Cooperation between the Council for Mutual Economic Assistance and the Republic of Iraq of July 4, 1975

RULES

For the Mixed Commission of the Council for Mutual Economic Assistance and the Republic of Iraq

The present Rules have been prepared on the basis of Article 2 of the Agreement on Cooperation between the Council for Mutual Economic Assistance and the Republic of Iraq of July 4, 1975 and is an integral part thereof.

I. Composition

The Mixed Commission shall be composed of representatives of the CMEA member-countries appointed by the corresponding bodies of these countries, and the representatives of the Republic of Iraq appointed by its corresponding bodies.

II. Functions and Powers

1. The Mixed Commission shall perform the following functions:

a) study the possibilities for promoting multilateral economic, scientific and technological cooperation between the CMEA member-countries and the Republic of Iraq in diverse areas of economy, science and technology, in the first place in oil and gas industry, chemical industry, including petrochemical, agriculture and foreign trade and develop measures to further such cooperation and contribute to their implementation;

b) identify and consider questions of multilateral economic, scientific and technical cooperation of mutual interest for the CMEA member-countries and the Republic of Iraq;

c) organize the preparation of multilateral agreements on economic, scientific and technical cooperation between the interested CMEA member-countries and the Republic of Iraq, their bodies, organizations and institutions;

d) consider the results of the fulfilment by the CMEA member-countries

and the Republic of Iraq of the Commission's recommendations they have adopted as well as multilateral agreements concluded on the Commission recommendation;

e) contribute to the arrangement of mutual consultations and exchange of information between the CMEA member-countries and the Republic of Iraq on economic policy and other questions of multilateral economic, scientific and technological cooperation presenting mutual interest;

f) carry out any other activities necessary for the realization of the Agreement of July 4, 1975.

2. The Mixed Commission is empowered to make recommendations to the CMEA member-countries and the Republic of Iraq on questions of economic, scientific and technological cooperation and make decisions on organizational and procedural matters of its work.

3. To further fulfilment of its tasks, the Mixed Commission may set up permanent and provisional working bodies.

III. Recommendations and Decisions

The Mixed Commission shall make its recommendations and decisions with the consent of the interested CMEA member-countries and the Republic of Iraq. These shall not apply to CMEA member-countries which have declared that there are not interested in a given question. Each of these countries may, however, subsequently accede to the recommendations and decisions made by the interested CMEA member-countries and the Republic of Iraq on terms to be agreed with them.

2. The representatives of the CMEA member-countries and the Republic of Iraq submit the recommendations adopted by it to the competent bodies in their respective countries for examination and shall notify each other of the results of such examination sixty days after the signing of the minutes of the Mixed Commission meeting. Such notification shall be carried out through the Secretaries of the Contracting Parties appointed by them in accordance with Paragraph 8, Section IV of the present Rules.

The Mixed Commission may, if necessary, set some other time limit within which the CMEA member-countries and the Republic of Iraq shall notify each other of the results of the examination of a given recommendation.

3. The recommendations of the Mixed Commission adopted by the interested CMEA member-countries and the Republic of Iraq shall be implemented in accordance with Paragraph 3, Article 3 of the Agreement of July 4, 1975.

4. The decisions of the Mixed Commission shall become effective unless it specifies otherwise, on the day on which the minutes of the meeting are signed.

5. The recommendations and decisions made by the Mixed Commission are entered into the minutes of the Commission meetings signed by the representatives of the CMEA member-countries and the Republic of Iraq.

IV. Procedures

1. The Mixed Commission shall adopt its work schedule for a period of at least one year. In doing so, the Mixed Commission shall determine priorities of the issues on the work schedule and the amount of and deadlines for the necessary materials to be supplied by the CMEA member-countries and the Republic of Iraq.

2. The Mixed Commission shall meet as required but not less than once a year. The year shall be counted as twelve months since the Agreement comes into force.

The date and venue of the next meeting are fixed by the Mixed Commission at its preceding meeting.

When necessary, by mutual agreement between the Contracting Parties, and extraordinary meeting of the Mixed Commission may be called.

3. The meetings of the Mixed Commission shall be chaired alternately by a representative of a CMEA member-country and a representative of the Republic of Iraq.

4. The meetings of the Mixed Commission shall be attended by the Secretary of the Council for Mutual Economic Assistance or by another official of the CMEA authorized by the CMEA Secretary.

5. Meetings of the Mixed Commission may be attended, at its invitation, by representatives of the CMEA bodies and other international

organizations of the CMEA member-countries that have contractual relations with the CMEA.

6. A country participating in the work of the CMEA bodies under an agreement between the CMEA and that country, may participate in the work of the Mixed Commission on the terms laid down by the Commission subject to agreement with the given country.

7. For the meetings of the Mixed Commission to be valid, it is required that they be attended by representatives of all the interested CMEA member-countries and a representative of the Republic of Iraq.

8. Arrangements for the meetings of the Mixed Commission and its working bodies, the supply of materials for such meetings, the preparation of the programs for the Mixed Commission work and the discharge of any other functions of organizational nature linked with the Commission's activity shall be carried out by the Secretaries appointed by each Contracting Party. For the purpose of performing these duties both secretaries shall maintain continuous contact with each other.

9. The official languages of the Mixed Commission shall be the languages of the CMEA member-countries and the Arabic language and the working languages shall be Russian and Arabic.

10. The expenses of a participant in the meetings of the Mixed Commission and its working bodies shall be paid by the country which sends its representatives to the meeting. When the Mixed Commission or its working bodies are meeting outside the CMEA premises, the host country shall make available the premises as well as technical and other facilities necessary for the said meetings and shall meet the expenses involved.

Any other expenses incurred in implementing the Agreement of August 4, 1975, shall be met by the Council for Mutual Economic Assistance and the Republic of Iraq. The CMEA and the Republic of Iraq shall agree upon their respective share in such expenses.

/Signatures/

Typical text of an Agreement on
Economic, Scientific and Technological Cooperation
concluded by Bulgaria

The Government of the People's Republic of Bulgaria and the Government of animated by the desire of strengthening and further promoting the friendly relations of the people of their countries on the basis of mutual respect of the sovereignty, independence, territorial integrity and non-intervention in their internal affairs;

Noting with satisfaction the successful cooperation established between their two countries;

Desiring to strengthen their economic, industrial, scientific and technological co-operation to their mutual advantage;

Recognizing the usefulness of long-term agreements capable of creating the basis of a stable economic, industrial, scientific and technological cooperation;

Have agreed as follows:

ARTICLE 1

The Contracting Parties shall continue to encourage cooperation in the economic, industrial, scientific and technological fields on the basis of mutual advantage.

ARTICLE 2

The Contracting Parties shall encourage and facilitate the participation of their respective organisations, enterprises and firms in the implementation and execution of existing and future development plans, programs and projects.

ARTICLE 3

The Contracting Parties shall determine by mutual agreement the fields of activity in which such co-operation is desired to be extended, taking into account their requirements in raw materials, equipment, technology and man-power resources.

ARTICLE 4

Cooperation within the scope of the present Agreement shall include:

- a) engineering, mutual deliveries and setting up of industrial plants or individual equipment, extension and modernization of industrial enterprises;
- b) specialization and industrial cooperation in the field of production with a view to increasing their trade exchange;
- c) joint financing, by long-term arrangements, of Government and other development plans and projects;
- d) exchange of patents, licences, know-how, scientific and technological information;
- e) cooperation in the fields of tourism, sea and air transport;
- f) exchange of technical experts;
- g) cooperation in the field of agriculture;
- h) promotion of trade by way of increasing the exports of their country in accordance with the Trade Agreements in force;
- i) other forms of economic cooperation.

ARTICLE 5

For the realisation of the cooperation under this Agreement and subject to the laws and regulations in force in their respective countries, the Contracting Parties shall encourage the conclusion of agreements and contracts between the economic organisations, institutions, enterprises and firms of their countries, by providing the necessary facilities for this purpose.

ARTICLE 6

The Contracting Parties shall establish, by mutual agreement, a permanent Intergovernmental Commission on economic, scientific and technological cooperation for the purpose of supervising the implementation of this Agreement and of contributing to the further development of economic cooperation, making periodical reviews of progress in the field of cooperation. To this end, the Commission shall prepare long-term programmes for the development of mutually advantageous economic, scientific, technological and industrial cooperation. These programmes shall be agreed each year.

The Commission shall comprise a Bulgarian and a part, designated by the respective Governments. The Chairman of the two parts shall be on a ministerial level. The Commission shall adopt its own Rules of Procedure regarding its work.

ARTICLE 7

Payments proceeding from the co-operation provided for in this Agreement, shall be effected in accordance with the legal regulations in force in the two countries and shall comply with the provisions of the Long-term Trade and Payments Agreement between the two countries.

ARTICLE 8

The provisions of this Agreement shall not affect the rights and obligations of the Contracting Parties resulting from other international agreements already concluded.

ARTICLE 9

Any amendment or addition to this Agreement shall be made through an agreement in writing between the two Contracting Parties.

ARTICLE 10

The present Agreement shall enter into force on the day of receipt of the second of the notes to be exchanged, by which the Contracting Parties shall inform each other that it has been approved by their Governments in accordance with their respective legal requirements. The Agreement shall remain in force for a period of ten years. Thereafter it shall continue in force unless denounced by either Party by a six months' notice in writing.

When this Agreement ceases to be in force the validity of any contract or agreement concluded under the provisions of this Agreement shall continue until such contract or agreement is fully discharged.

DONE aton in two original copies in the Bulgarian and English languages, both texts being equally authentic.

FOR THE GOVERNMENT OF THE
PEOPLE'S REPUBLIC OF BULGARIA:

FOR THE GOVERNMENT OF
.....

Typical text of an Agreement
on Scientific and Technical Cooperation
concluded by Hungary

The Government of the Hungarian People's Republic and the Government of the, desirous of developing and strengthening cooperation between the two countries on the basis of the generally recognized principles of international law and of promoting scientific and technical cooperation on the basis of the principles of sovereignty and national independence, equality of rights, non-interference in internal affairs, and mutual benefit, have agreed as follows:

ARTICLE 1

The Government of the Hungarian People's Republic and the Government of the, hereinafter called the Contracting Parties, undertake to make every effort to promote the further development and diversification of scientific and technical cooperation between them.

ARTICLE 2

The Contracting Parties agree to cooperate in the fields of geology and mining, in particular open-cast mining, development of electrical power systems, road construction, engineering, industrial development, agriculture and forestry, electrical engineering, electronics, communications, education, health and other fields of mutual interest.

ARTICLE 3

The Contracting Parties, in order to achieve the objective set out in Article 1, consider the following forms of scientific and technical cooperation desirable:

1/ Undertaking of feasibility studies and economic and technical research, supply of plans and documentation, as well as granting of the necessary technical assistance including assignments or exchange of experts, technicians and instructors, and advisers sent by either Contracting Party to the other country for implementing the present Agreement and specific additional arrangements shall enjoy in the other country facilities which are not less favourable than those granted to experts of other

countries, in accordance with the laws and regulations in force in the other country;

2/ Exchange of economic and technical information considered useful for implementing the present Agreement including the purchase and transfer of technology;

3/ Training of nationals of either country in enterprises and institutions of the other country, as well as by the organization of scientific symposia and technical seminars;

4/ Sharing the experience in research organizations, industrial enterprises and other organizations;

5/ Such other forms of cooperation as may be agreed upon between the Contracting Parties.

ARTICLE 4

The Contracting Parties undertake to render the necessary assistance and support to the appropriate economic organizations and enterprises of the two countries by means which are at their disposal for the conclusion of contracts and arrangements, in accordance with the provisions of the present Agreement.

The Contracting Parties, through their competent agencies, will exempt from customs duties, taxes and other fiscal obligations, in conformity with the legal provisions in force in each country, materials and equipment destined for use in the activities sanctioned in this Agreement. The Contracting Parties will also grant the necessary authorizations to achieve this objective.

ARTICLE 5

The Contracting Parties shall examine the possibility and necessity of concluding an agreement for avoiding double taxation.

ARTICLE 6

The terms and conditions including payment arrangements governing the implementation of the objective of the present Agreement shall be embodied in the contracts to be concluded between the organization authorized by each Contracting Party. The prices to be fixed in these contracts shall be competitive, unless otherwise agreed by the Parties.

ARTICLE 7

The Joint Commission established in accordance with Article 9 of the Trade Agreement between the Contracting Parties signed in shall have the following functions in addition to those specified in that Article:

- 1/ Review of progress achieved in scientific and technical cooperation cooperation between the two countries;
- 2/ Elaboration of concrete programmes for the development of scientific and technical cooperation and identification of new fields of cooperation;
- 3/ Discussion of problems resulting from the interpretation and the implementation of the present Agreement and raised by either Contracting Party or bodies authorized to act on its behalf.

The Joint Commission will continue to discharge its functions in relation to this Agreement, notwithstanding the termination of the Trade Agreement.

ARTICLE 8

In order to implement the present Agreement other agreements, protocols, and arrangements may be signed and notes and other documents on specific areas of cooperation may be exchanged in accordance with the provisions of the present Agreement.

ARTICLE 9

Each Party undertakes not to transmit to any third Party technical documentation or any other information derived from scientific and technical cooperation under the present Agreement without the prior written consent of the other Party.

ARTICLE 10

The present Agreement shall enter into force on the day on which Notes are exchanged between the Contracting Parties which notify of the fulfilment of the formalities required by the laws of each country for implementing this Agreement.

The present Agreement shall be valid for five /5/ years and shall be automatically extended for successive periods of one year, unless either Contracting Party has given written notice of withdrawal six months

to its expiry.

The provisions of the present Agreement shall continue to apply to contracts and measures concluded during the validity of the present Agreement, but not fulfilled before its expiry.

Done and signed in on the in two originals in the English language.

For the Government of the
Hungarian People's Republic

For the Government of the
.....

Typical text of the Protocol to a
long-term trade and economic cooperation agreement

The Delegation of the Hungarian People's Republic and the
held negotiations from the to the in Budapest.
These negotiations led to the conclusion of a LONG-TERM TRADE AND ECONOMIC
COOPERATION AGREEMENT.

Taking into consideration the increasing possibilities created for
the expansion of economic relations by the steady development of the
national economy of the two countries and with the aim of promoting trade
and economic cooperation between them, according to the provisions of
the LONG-TERM TRADE AND ECONOMIC COOPERATION AGREEMENT, the two Delegations
have agreed as follows:

ARTICLE I.

The Hungarian Party Agrees to supply the Party the
following goods and materials on the basis of contracts to be concluded
between the competent companies of the two countries:

-
-
-
-

The Hungarian Party will instruct the competent Hungarian Foreign
Trade Companies to contact their Partners and send to them
all the necessary informations and data which would enable them to get
acquainted with the Hungarian possibilities.

The two parties have agreed that besides the goods enumerated above,
other goods could also be delivered.

ARTICLE II.

The Party undertakes to deliver to the Hungarian Party
.....
.....

ARTICLE III.

The two Parties have agreed to study the problem of double taxation

between the two countries in order to find in this question a suitable solution for both sides.

ARTICLE IV.

The two delegations have agreed that the present Protocol forms an integral part of the LONG-TERM TRADE AND ECONOMIC COOPERATION AGREEMENT.

Done and signed in Budapest, on in two original copies each in Hungarian, and English languages, being all equally authentic.

In case of any dispute concerning the interpretation of the Agreement, the English text is to be held authoritative.

FOR THE GOVERNMENT OF THE
HUNGARIAN PEOPLE'S REPUBLIC

FOR THE GOVERNMENT OF THE
.....

Typical text
of the contract on trade and deliveries

C O N T R A C T

between

The National Company on Textile Industry head office
..... hereinafter referred to as PURCHASER, represented
by Mr., Director General

on one side

AND

The Association "TECHNOEXPORT-TECHNOCOMPLECT", headquarters at Sofia,
Bulgaria, 20, Julio Curi Str., hereinafter referred to as SELLER,
represented by Mr. its Director,

on the other side

ARTICLE I - SUBJECT OF CONTRACT

The present Contract has as subject

a) Regeneration on part of TECHNOEXPORT-TECHNOCOMPLECT of
weaving looms, assembled at the plant and delivery of assembly groups and
the necessary parts for the same regeneration (repair) (See Annex 1).

b) Delivery of spare parts required for the current run of the
machines for a period of 2 years, upon the above-stated regeneration
(See Annex II.)

ARTICLE 2 - PRICE OF CONTRACT

- Groups and spare parts for regeneration of weaving looms,
mounted in the plant in

\$

- spare parts covering the usual consumption for two years after the
regeneration:

Totally \$

ARTICLE 3 - PAYMENT TERMS AND CONDITIONS

The payment of the deliveries from TECHNOEXPORT-TECHNOCOMPLECT will be effected in compliance with the provisions of the Agreement dated The amount of the contract will be paid as follows:

a)% of the value or\$ payable by within 30 days upon approval of the contract from the competent authorities of the two countries, by divisible and non-changeable Letter of Credit, opened in favour of TECHNOEXPORT-TECHNOCOMPLECT with the Bulgarian Foreign Trade Bank by bank.

In advance TECHNOEXPORT-TECHNOCOMPLECT will issue a guarantee for the same amount.

b)% of the value, or\$, payable by the Purchaser in compliance with the provisions of the Agreement dated with an interest rate of% on an instalment basis for 12 years.

The payable amounts in dollars are calculated on the basis 1 \$ = grams of fine gold.

ARTICLE 4 - TERMS OF DELIVERY

The delivery of the goods will be effected in 4 dispatches of equal value, the first of which will be effected 4 months at the latest after the opening of the L/C referred to in Article 3 above.

The other dispatches will be effected at intervals of 2 months as from the first delivery.

Each dispatch has to comprise the necessary parts so that will enable the regeneration of a group of weaving looms. The regeneration is to be done in groups of looms.

ARTICLE 5 - PACKING

The packing and the protection of the commodities will be done in a way meeting the up-to-date requirements so that the transporting agency should not be freed from his duty regarding the packing and insufficient protection of the commodity. The supplier will be responsible for any loss, damage up to the port of destination and due to defect packing or protection, insufficient or not suitable.

ARTICLE 6 - GUARANTEES

a) Guarantee against manufacturing defect

The SELLER guarantees that the delivered spare parts are made of first-grade raw materials and guarantees that the castings are made in such a way as to avoid any deformation after these parts are set in motion and this will last for a period of 1 year under conditions of normal exploitation.

THE SELLER undertakes to freely replace the defective parts and to cover on his own account the transport expenses.

b) Guarantee for the price of the parts

The SELLER guarantees thatweaving looms will not consume mechanical spare parts at a value exceeding\$ per annum for a period of 5 years, as from the date when the contracts comes into force. THE SELLER also guarantees that the increase of the prices of the spare parts will be in reasonable limits during these 5 years.

o) Placing the spare parts at disposal

The SELLER guarantees availability of spare parts for a period of 10 years from the date when the Contract comes into force, and a delivery term 6 months maximum upon opening the L/C.

ARTICLE 7 - DATE OF EXECUTION

The present Contract will come into force on the day when its clauses are approved by the government authorities of the two countries within maximum 60 days from the date of its signing.

ARTICLE 8 - FORCE MAJOR

None of the two parties will be considered responsible for the non-discharge or delay of discharge of its commitments, stated in the present contract, when this delay or non-fulfilment is due to force major reasons.

ARTICLE 9 - COURT OF ARBITRATION

1) Any difference which may arise in respect to the interpretation of the present Contract or regarding its implementation will be settled in a friendly way by both sides.

2) In case of discordance, it will be solved finally by the International Cham of Commerce in Geneva.

ARTICLE 10 APPLICABLE LAW

The present Contract will be under the law of the partner-country to the People's Republic of Bulgaria.

ARTICLE 11 - NON-INTERFERENCE OF A THIRD PERSON

The SELLER and the PURCHASER state that the present Contract is concluded without direct or indirect assistance, without intervention of any agent of intermediary transactions. No compensation, no debt, no commission, fiscal instalment or anything else has been paid or will be paid to the middle-man - agent.

Both sides undertake to treat directly between themselves any transaction in direct or indirect relations to this contract and will not tolerate in their relations the intervention of a third person.

ARTICLE 12 - LANGUAGE

The present contract is made in 4 copies in the English language.

ARTICLE 13 - ANNEXES

The Annexes present an integral part of the present Contract.

FOR.....

FOR.....

PAYMENTS CLAUSES IN TRADE AND PAYMENTS AGREEMENTS WITH SELECTED
SOCIALIST COUNTRIES OF EASTERN EUROPE

A. Agreement with the USSR of 15 April 1976,
covering the period 1976-1980

Article VIII

1. All payments of a commercial and non-commercial nature between India and the USSR will be effected in Indian rupees.
2. For the purpose of paragraph 1 of this article:
 - (a) The Bank of Foreign Trade of the USSR will continue to maintain a Central Account with the Reserve Bank of India and one or more accounts with one or more commercial banks in India authorized to deal in foreign exchange;
 - (b) The Central Account will be used for depositing the rupee balances and for replenishing the accounts with the commercial banks and for operating transactions relating to technical credit;
 - (c) The accounts with the commercial banks in India will be used for carrying out all operations of commercial and non-commercial nature.
3.
 - (a) The Central Account will be replenished by transfer of funds from the account(s) with commercial bank(s) mentioned in sub-clause 2 above and by receipts on account of technical credit;
 - (b) The account(s) with commercial bank(s) will be replenished by transfers of funds from other such account(s) mentioned in sub-clause 2 above and from the Central Account.
4. (a) Payments permitted in accordance with the Indian Exchange Control laws and regulations and the rules made thereunder will be effected on the basis of this Agreement to the Physical and juridical persons residing in the USSR by the physical and juridical persons residing in India, by crediting the amounts of such payments to the said account(s) of the Bank for Foreign Trade of the USSR with the commercial bank(s) in India;

(b) Likewise, payment permitted under the USSR Foreign Exchange Control Laws and Regulations and the rules made thereunder, will be effected by the physical and juridical persons residing in the USSR to the physical and juridical persons residing in India by debiting the amount of such payments to the said accounts with the commercial bank(s) in India.

5. The Reserve Bank of India and the Bank for Foreign Trade of the USSR will jointly establish the technical procedure of keeping the accounts under this Agreement.

6. Any balance in the Rupee Accounts of the Bank for Foreign Trade of the USSR or any debt of the bank for Foreign Trade of the USSR in connexion with the grant of technical credit will, upon expiry of this agreement, be used during the ensuing 12 months for the purchase of Indian or Soviet goods as the case may be or shall be settled in such other ways as may be agreed upon between both Governments.

F. Agreement with Poland of 21 December 1974,
covering the period 1975-1977

Article VIII

All payments of commercial and non-commercial nature between the Republic of India and the Polish People's Republic will be effected in non-convertible Indian rupees.

For this purpose, the Bank Handlowy W. Warszawie SA will maintain a Central Account with the Reserve Bank of India and one or more accounts with one or more commercial banks in India, authorized to deal in foreign exchange.

1. (a) The Central Accounts, maintained by the Bank Handlowy W. Warszawie SA with the Reserve Bank of India, will be used for depositing the rupee holdings of the Bank Handlowy W. Warszawie SA and for replenishing the accounts of the Bank Handlowy W. Warszawie SA with the authorized Indian commercial banks and for operating the technical credit.

(b) The accounts maintained by the Bank Handlowy W. Warszawie SA with the Indian commercial banks will be used for carrying out all other operations

connected with the payments of commercial and non-commercial nature, as mentioned above.

2. (a) The Central Account will be replenished by transfer of funds in Indian rupees from the accounts maintained by the Bank Handlowy W. Warszawie SA with the Indian commercial banks and by receipts under the technical credit.

(b) The accounts with the commercial banks will be replenished by transfer of funds from other similar accounts and from the Central Account and from the credit repayments accounts.

The payments permitted in accordance with the Indian Foreign Exchange Control Laws and Regulations will be effected on the basis of this Agreement to the physical and juridical persons residing in the Polish People's Republic by the physical and juridical persons residing in India, by crediting the amounts of such payments to the accounts of the Bank Handlowy W. Warszawie SA with the Indian Commercial Banks.

Likewise the payments which are to be effected by the physical and juridical persons residing in the Polish People's Republic to the physical and juridical persons residing in India in accordance with the Polish Foreign Exchange Control Laws and Regulations will be effected by debiting the accounts maintained by the Bank Handlowy W. Warszawie SA with the Indian Commercial Banks under the instructions of the Bank Handlowy W. Warszawie SA.

Article IX

1. Upon expiry of this Agreement, any balance in the rupee accounts of Bank Handlowy W. Warszawie SA or any debt of the Bank Handlowy W. Warszawie SA in connexion with the grant of technical credit, shall be used during the ensuing 12 months for the purchase of Indian or Polish goods, as the case may be. Payments arising from contracts concluded before the expiry of this Agreement, but falling due after the expiry of this Agreement, shall notwithstanding the expiry of this Agreement continue to be effected in accordance with Article VIII of this Agreement, and be utilized for the purchase of Indian or Polish goods, as the case may be, during the ensuing 12 months after the maturity date of each payment.

2. If on the expiry of the said period of twelve months some balances are left outstanding, the Contracting Parties will hold consultations immediately for preparing a plan of liquidating the outstanding balances within a period of six months through purchase of goods of special interest to the creditor, and the debtor party will facilitate the supply of those goods.

3. However, in case there are still some outstanding balances after the expiry of this period, both parties shall meet and evolve a mutually acceptable solution.



We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche

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