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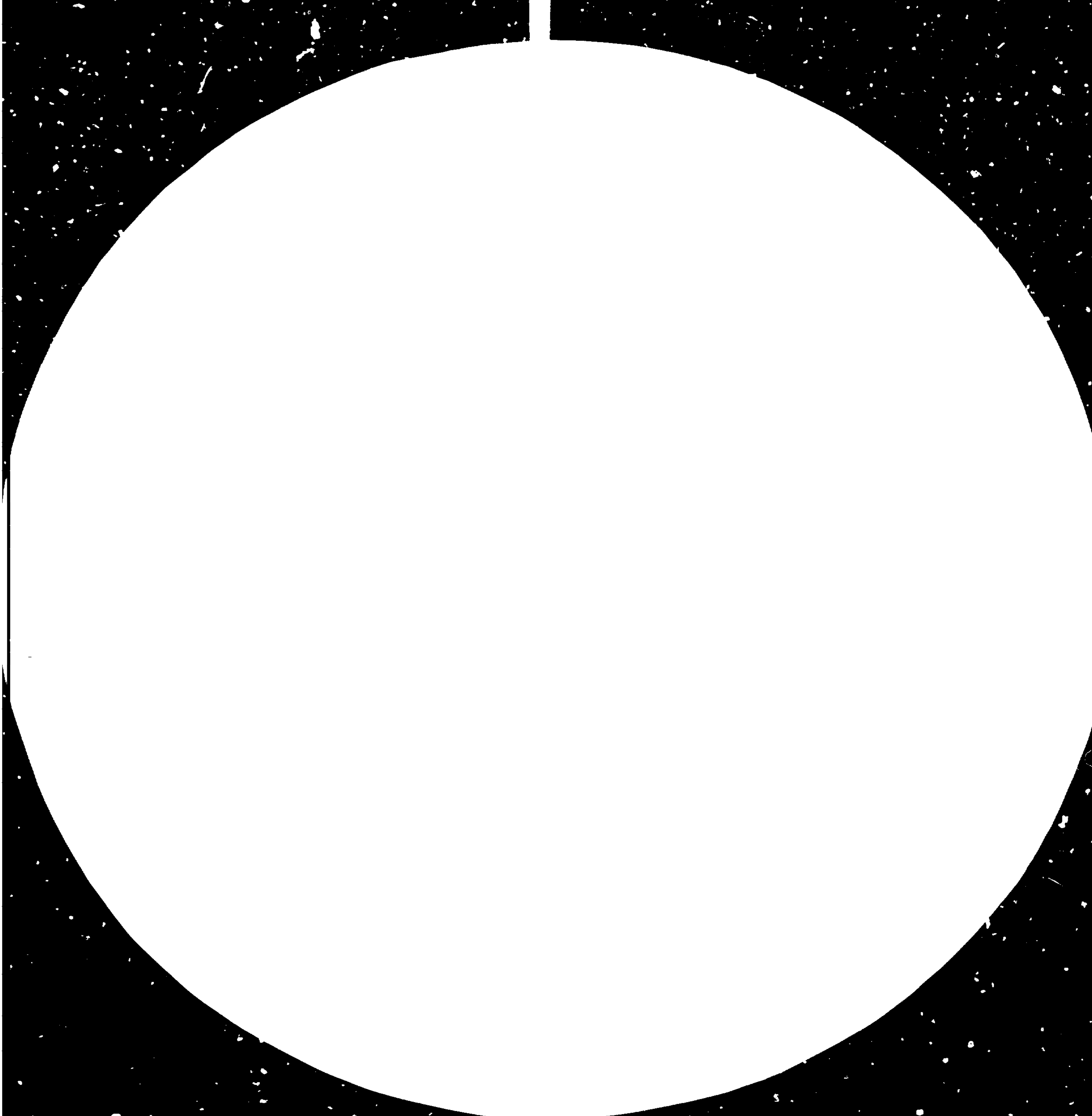

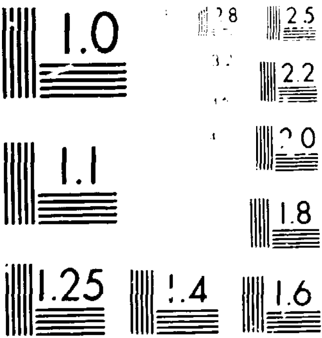
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UNITED NATIONS INDUSTRIAL
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Distr.
LIMITED

UNIDO/IS.193
5 December 1980

English

THE INDUSTRIAL DIVISION OF LABOUR BETWEEN THE EUROPEAN CENTRALLY PLANNED ECONOMIES AND DEVELOPING COUNTRIES *

Prepared by the

Global and Conceptual Studies Branch

Division for Industrial Studies

UNIDO Working Papers on Structural Changes

No. 28, November 1980

1932

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80-46552

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PREFACE

This study was undertaken in the framework of the research programme of UNIDO on industrial redeployment and structural change. This programme constitutes a surveillance of the international industrial restructuring process, aiming at highlighting pertinent trends in industrial development nationally and internationally. By identifying the factors that determine structural changes and indicating the likely direction and possible implications of the restructuring process, uncertainties and rigidities in this process might be reduced and a basis created for a forward-looking conception of industrial co-operation between the developed and the developing countries.

In this study an initial attempt has been made to present some major features of the relationship between the European CMEA countries and developing countries in the field of industry with particular attention being paid to the possibilities of furthering co-operation by bilateral agreements at the State level, and region to region co-operation in the light of changes in the global trading environment. The study is expected to be followed by a series of other analyses of the region. It should be noted that in this paper the terms European CMEA countries, centrally planned economies or socialist countries are used synonymously to denote the following countries: Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Romania and the USSR.

The study was carried out by Dr. Béla Kádár, Head of Department at the Institute of World Economics, Hungarian Academy of Sciences, Budapest, as a UNIDO consultant in co-operation with the UNIDO Secretariat.

1. PRESENT STRUCTURE OF TRADE BETWEEN THE EUROPEAN CENTRALLY PLANNED ECONOMIES AND THE DEVELOPING COUNTRIES

1.1 General

The experience of recent years has shown that structural development has become a key issue of co-operation between centrally planned (CMEA) economies and the developing countries. The importance of the problem can be explained by the almost simultaneous appearance of a great number of factors. In the last decade, rearrangement processes have taken place in the world economy and a new stage of international economic relations has started to emerge. This new era in the world economy whose effects can be felt in every sector of world trade (thus also, present relations between the European centrally planned economies and the developing countries) came about largely as a result of an acceleration of international structural changes. Such general factors should be taken into account because their impact is reflected in the evolution of present structures of trade between the European CMEA countries and developing countries.

The heritage of historical development cannot be disregarded in any phase or sector of the universal economic development. The strong economic and political ties binding the developing countries to the former colonial powers, and the international political climate in the years following the end of the Second World War, limited the size of labour forces as well as the more advanced forms of division of labour between the two groups of countries.

Before the Second World War, the European CMEA countries - the German Democratic Republic and Czechoslovakia excepted - belonged to the group of less-industrialized or semi-industrialized countries. During the quarter of century following the end of World War II, the decisive share of their demand for primary goods and light industrial products was covered within the intra-regional division of labour. In the fifties, some 60 per cent of the extra-regional exports of CMEA countries comprised unprocessed raw materials and foodstuffs.

It is obvious that the development of the CMEA countries in the last 25 years, although rapid even by international standards, could nevertheless only partly eliminate the evolutionary drawbacks. These countries are placed about middle on the international ranking list in respect of their economic development and per capita national income level. Specific features connected with development levels are also reflected in the present trade structures of the CMEA countries.

Structural characteristics of trade among countries having different economic and social systems, resulting from the different functioning and overall management systems of the economies of countries with socialist economic planning and developing market economies, respectively, cannot be neglected. The economic system of the CMEA countries is based on public ownership over the means of production and planning of the national economies, including their external economic relations. Enterprises established under the circumstances of market competition could only operate less efficiently and often felt lost under the conditions of a planned economy, while the socialist enterprises, accustomed to the atmosphere of central management and price stability, were unsure of themselves in conditions of market competition and cyclical fluctuations.

Problems of co-operation resulting from the differences in the systems of control and management are relatively less important when the overwhelming part of mutual supplies involve raw materials, foodstuffs or industrial products for end-use; and when the essence of economic relations is foreign trade. The picture will change if, as a result of economic development and technological-structural transformation, economic co-operation grows out of the framework of simple commodity exchange. Foreign trade then becomes an element of a comprehensive system of co-operation in technology, science, finance and marketing. Investment goods as well as other technical products requiring more complicated forms of co-operation will then develop within the framework of foreign trade. The higher development level also postulates, at the same time, more up-to-date forms of the international division of labour and the development, manufacturing and sales of more-advanced investment goods. Trade in consumption goods also requires closer co-operation between the partners; occasionally even requiring organizational links. Therefore, at a higher level of economic development, the identity or divergence of the systems of control and management influence the structural characteristics of co-operation to a much greater extent than in earlier historical periods.

The character of economic policy also has a 'structure shaping' effect. After the Second World War, economic co-operation was not stimulated by the character of development strategies. Due to various factors operating at the time, a number of developing countries tried to realize inward-looking economic growth, basing industrialization on import substitution.

Partly in consequence of the carrying-over of experiences obtained in the restricted international economic relations between the wars, and partly in response to political embargoes, the CMEA countries shaped their development strategy in such a way that it should serve the realization of the widest possible internal or regional autarchy for nearly twenty years. Under such circumstances, national economic plans did not advance specialization according to the requirements and possibilities of a world market which was exposed to cyclical fluctuations and full of hostile political interests. This development concept has been modified only during the last decade, mainly under the influence of factors governing the economic development that had been achieved by the end of the sixties - as well as the spreading spirit of détente. The development strategies of the CMEA countries have increasingly relied on considerations of external economic factors. The rates of growth of their foreign trade exceeded substantially the rates of growth of their national incomes, and within that framework, the trade with countries having different economic and social systems has had a more than average dynamism. Similarly, from the second half of the sixties, a growing number of developing countries have relied to an increasing extent on widening their participation in the international division of labour.

The conceptual framework of the strategies of economic co-operation between centrally planned economies included a number of specific priorities closely related to the acceleration of international processes, and the system of conditions and requirements connected with them. From the point of view of CMEA countries, the principal aim of this co-operation was to accelerate world social and political development. Accordingly, the economic functions and trends of the general economic relationships, and particularly industrial co-operation, were aimed primarily at:

- reducing the unilateral external economic dependence of the developing partner countries,
- transforming and modernizing the monocultural economic structure inherited during the historical development of African, Asian and Latin American countries,
- establishing economic capacities directly promoting improvements of the situation of the broad masses.

The developing countries were mostly interested in those advantages of co-operation with CMEA countries which were connected with their technological and structural modernization; the easing of their foreign exchange strains; and the strengthening of their bargaining powers against some big powers and trans-national corporations. At the same time, economic co-operation between the two country groups also stimulated the structural development of CMEA exports. This was particularly noticeable in the expansion of engineering products. Imports from developing countries, on the other hand, have increasingly contributed to the diversification of the supply sources, the development of the industries requiring considerable import inputs and the improvement of the domestic supply situation for these CMEA industries. The interests of the two country groups in furthering economic co-operation was far from being conflicting. In most cases it was quite identical, which created adequate stimuli for the intensification of trade relations.

1.2 Sectoral Patterns of Trade

The first signs of a new growth period in the world economy and international division of labour appeared in the second half of the 1960s. It, therefore, seems expedient to examine the development of structural patterns on the basis of changes from 1965 on.

The substantial increase of trade between the two country groups illustrates, in quantitative terms, the growth and spirit of economic co-operation. The annual average growth rate of the overall trade turnover between the European centrally planned economies and the developing countries grew by 9.6 per cent between 1965-1970, 18.1 per cent in the period of 1970-1975, 9.1 per cent in 1976 and 14.5 per cent in 1977.

TABLE 1: TRADE* OF CMEA COUNTRIES WITH DEVELOPING COUNTRIES: 1965 TO 1977
($ million)

	1965	1970	1976	1977
<u>CMEA Exports</u>				
Bulgaria	94	187	58[illegible]	781
Czechoslovakia	358	510	999	1,163
Germany DR	224	340	830	699
Hungary	150	20[illegible]	638	834
Poland	232	326	1,1[illegible]3	1,295
Romania	88	235	1,308	1,330
USSR	1,626	2,948	7,902	10,713
TOTAL	2,772	4,754	13,363	17,015
<u>CMEA Imports</u>				
Bulgaria	84	138	405	420
Czechoslovakia	301	378	826	1,002
Germany DR	230	291	1,056	1,175
Hungary	148	246	629	755
Poland	277	260	794	1,135
Romania	69	169	1,225	1,200
USSR	1,328	2,011	6,851	7,640
TOTAL	2,437	3,493	11,786	13,328

* fob value

Source: UNCTAD <u>Statistical Review of Trade Among Countries Having Different Economic and Social Systems</u>, TD/243/Supp.1, 1979.

Trade between the two groups of countries was an active sector of international trade during the period in question. Taken as a whole, trade expansion in this sector exceeded the rates of growth of both CMEA overall trade and intra-CMEA trade. Indices of total turnover show that the value for 1977 was nearly six times the base value of 1965 in trade between centrally planned economies and developing countries, nearly seven times greater in East-West trade (stimulated by détente), 4.3 times greater in CMEA intra-regional co-operation, and six times greater in World trade.

The increasing involvement of both CMEA member states and developing countries in international economic relations has been adversely affected during recent years by uncertainties prevailing in the world economy. As a consequence of cyclical and structural adjustment problems of many developed market economy countries, the growing protectionist trends and discriminatory measures in these countries, exports and general economic development of both developing countries and CMEA planned economies are unfavourably influenced, particularly those which are most foreign-trade-sensitive. Although these trends stimulate both country groups to intensify long term mutual trade flows, they can create temporary, short term problems in economic co-operation between the two country groups. The share of turnover between CMEA countries and developing countries represented 1.3 per cent of world trade in 1977 compared with 1.4 per cent in 1965.

Although in the active trade between CMEA countries and developing countries the balance has constantly favoured the centrally planned economies, one has to consider that this trade imbalance results, in part, from the increasing CMEA exports of investment goods delivered on a long term credit basis for the implementation of development projects in African, Asian and Latin American countries. It should be noted that, within the overall trade balance, there are marked differences among the equilibrium positions of the major developing areas trading with the centrally planned economies. The CMEA countries have a traditional advantage in their trade with African and Near-East countries. At the same time, there is a structural trade deficit for them in the economic relations with Latin America and an emerging trade deficit with some Asian countries in the 1970s. The ratio of CMEA exports to imports in Latin American trade was 0.85 in 1965 and only 0.65 in 1977. CMEA exports to other Asian countries covered, in 1977, only 0.74 per cent of their imports from there, compared with a relative trade equilibrium during the sixties. Equilibrium positions between respective countries show even wider dispersion from global averages and lead to the conclusion that the overall trade balance positions of the last 10 to 15 years cannot be taken as a guide for the future of trade relations between the European centrally planned economies and developing countries.

Due to recent economic development and intensification of economic co-operation in the developing countries and centrally planned economies, substantial changes have been taking place in the commodity structure of their mutual trade (see Table 2).

Although the acceleration of structural transformation in the world economy has demonstrated that aggregate structural indicators are inadequate tools for describing economic processes, the direction of changes indicates an extension of co-operation between the two country groups.

The data of Table 2 show that the aggregate structure of the exports of CMEA countries to developing countries has not changed substantially since 1965. The changes after 1973 are due to changes in relative prices. The share of industrial products in CMEA exports amounted to 75.6 per cent in 1965 and 66.4 per cent in 1976, i.e. it was higher than average in international trade. From the structural point of view, CMEA exports can be considered as developed country exports because they include a high proportion of machinery, products of engineering industries, and other products with a relatively high degree of processing. In the long term, a marked downward trend can be registered in the share of industrial consumer goods and semi-finished products, in which categories the developing countries increasingly satisfy their demand through internal production or through imports from other developing countries.

Structural changes in the pattern of trade are basically concentrated on the imports of the European CMEA countries from the developing countries. Primary products represented 76.1 per cent of CMEA imports in 1965 and 73.2 per cent in 1976, despite substantial changes in relative prices.

TABLE 2: TRADE OF DEVELOPING COUNTRIES[a] WITH CMEA COUNTRIES, BY SITC[b] COMMODITY GROUP: 1965 to 1976
(per cent)

		1965	1970	1973	1974	1975	1976
<u>Developing Country Exports</u>							
0,1	Food, beverages and tobacco	43.2	39.7	37.0	37.2	40.6	38.4
2,4	Crude materials, oils and fats (excluding fuels)	32.7	30.7	23.5	23.0	16.7	16.0
3	Mineral fuels	0.2	1.5	9.3	12.2	16.1	18.8
5,6,8	Chemicals and manufactured goods	17.1	22.9	24.8	23.1	21.6	20.4
7	Machinery and transport equipment	6.8	5.2	5.4	4.5	5.0	6.4
0–8	TOTAL	100.0	100.0	100.0	100.0	100.0	100.0
<u>Developing Country Imports</u>							
0,1	Food, beverages and tobacco	9.2	10.1	13.8	16.3	11.7	11.0
2,4	Crude materials, oils and fats (excluding fuels)	5.3	6.5	7.8	9.7	7.6	7.4
3	Mineral fuels	9.8	7.0	8.7	13.2	14.1	15.2
5,6,8	Chemicals and manufactured goods	33.1	31.2	28.4	30.1	29.9	26.8
7	Machinery and transport equipment	42.6	45.2	41.3	30.7	36.7	39.6
0–8	TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

a Yugoslavia is included with developing countries
b Standard International Trade Classification

Source: UNCTAD, <u>Statistical Review of Trade Among Countries Having Different Economic and Social Systems</u>, TD/243, 1979.

<u>SITC Commodity Groups:</u>

0 Food, live animals
1 Beverages, tobacco
2 Crude materials, inedible (excl. fuels)
3 Mineral fuels
4 Animal & vegetable oils and fats
5 Chemicals
6 Manufactures
7 Machinery and equipment
8 Miscellaneous
9 Commodities (not classified)

Changes have also occurred in primary products. Prior to the seventies, the CMEA countries did not import any noteworthy quantity of mineral fuels from the developing countries. As a consequence of the evolution of the intra-regional supply situation, as well as the increasing co-operation with oil-producing countries, a considerable part of the incremental oil demand in CMEA countries is being covered by imports from developing countries. Thus nearly one-fifth of CMEA imports consists of mineral fuels and related materials.

Structural change can be noticed in the increasing industrial exports and diversification of the range of goods produced by developing countries. Despite the fact that changes in the relative international prices affected most adversely the low-skill-intensity products of light industries and some electro-industry branches, the share of industrial products in CMEA imports from developing countries increased from 23.9 per cent to 26.8 per cent between 1965 and 1976. This share in value terms amounted to 34.3 per cent in 1972, indicating the extent of the price effect on the commodity composition of CMEA imports. Diversification within the category of industrial imports is illustrated by the fact that, besides the traditional light industry products, an increasing number of non-traditional industrial items, such as electrical equipment, metallurgical and pharmaceutical products, have tended to occupy a greater share in these exports.

The analysis of the aggregate structural indicators shows that there is a certain structural imbalance between exports and imports in the trade between centrally planned economies and developing countries. This imbalance partly reflects the obvious differences in the general economic, technological and organizational level between the two country groups, not to mention those driving forces of the division of labour which stem directly from different factor endowments. It should be noted, however, that the trade imbalance is decreasing. At the same time, the share of industrial products in the exports of developing countries is higher in their trade with the CMEA countries than in their total industrial exports (1976: 18.5 per cent). The growth and increasing diversification of CMEA industrial imports from developing countries demonstrates that the industrial division of labour is an increasingly vital part and driving force in economic co-operation.

Naturally, the CMEA member countries are far from being homogenous as far as their stage of economic development, industrialization, structural characteristics, economic size, and foreign trade sensitivity is concerned. Differences in these matters explain various patterns of trade evolution as well as being structural indicators of the member countries' trade with developing countries. The SITIC statistics do not give the full picture of trade with all developing countries, some of which use their own commodity classification.

Nevertheless, the available data reveal that the share of machinery and transport equipment in exports to developing countries amounted to 51 per cent for Czechoslovakia, 35 per cent for Hungary, and 29 per cent for the USSR. Chemicals represented about 3 per cent in Czechoslovakian and Soviet exports and some 10 per cent for Hungary. The share of other manufactured goods amounted to 35 per cent in Czechoslovakian, some 30 per cent in Hungarian, and more than 8 per cent in Soviet exports. Smaller CMEA countries, having fewer natural resources, necessarily rely more on machinery and other industrial products in their exports.

As to the imports from developing countries, machinery and transport equipment represented, in 1978, more than 14 per cent in Czechoslovakian, some 7 per cent in Soviet, and 4 per cent in Hungarian purchases. Chemicals amounted to some 2 per cent in Czechoslovakian and USSR imports, 4 per cent in Hungarian imports, while the share of other industrial products amounted to 22 per cent in Czechoslovakian, 18 per cent in Hungarian, and some 14 per cent in USSR imports. In the Romanian imports, machinery and transport equipment and chemicals amounted to about 3 per cent each, and industrial consumer goods amounted to 1 per cent in 1977.

It is worthwhile to consider that the degree of industrial division of labour is more important in economic co-operation between the smaller and traditionally more industrialized planned economies and the developing countries. On the other hand, imbalances in the trade structure is less pronounced in the trade relations between the USSR and the developing countries. In 1976, the ratio of Soviet imports of industrial articles from developing countries represented 0.61 of USSR industrial exports to developing countries, i.e. in these product categories, industry was a substantial foreign-exchange earner for the developing countries. This ratio excluded machinery which had an export-import ratio of 1.64. In industrial trade with Czechoslovakia, the export-import ratio with developing countries amounted to 0.37, and for Hungary was 0.34. In each case examined, the balance of industrial trade is more favourable to the developing countries than is their trade with developed market economies.

1.3 Geographical Patterns of Trade

The product composition of trade flows according to major areas and countries, to some extent reflect the economic structural characteristics of the trading partners.

Some shifts in the geographic pattern of trade has occurred amongst the European CMEA countries (see Table 3). Between 1965 and 1977, the share of the USSR increased from 59 per cent to 63 per cent in total CMEA exports to developing countries, and from 54 per cent to 58 per cent in imports; that of Romania from 3 per cent to 8 per cent in exports, and from less than 3 per cent to 9 per cent in imports; at the same time the share of Czechoslovakia decreased from 13 per cent to less than 7 per cent in exports, and from 12 per cent to less than 8 per cent in imports. There was a less-marked decrease in the relative shares of the German Democratic Republic, Hungary and Poland. These changes affect structural parameters in a sense, since some CMEA countries with diminishing relative shares have a higher degree of division of industrial labour with developing countries than the average for CMEA countries.

Trade between the European centrally planned economies and the African, Asian and Latin American regions is also influenced by the increasing economic differentiation within the group of developing countries.

TABLE 3: CMEA EXPORTS TO MAJOR DEVELOP..G EGIONS, BY SITC COMMODITY GROUP: 1965, 1970 and 1977 (US $ million)

		SITC Group						
		0,1	2,4	3	5	6,8	7	0–8
Africa	1965	43	37	3[illegible]	26	145	310	610
	1970	110	56	66	39	215	390	876
	1977	375	217	205	169	577	891	2,434
Latin America	1965	100	48	105	43	100	195	590
	1970	135	64	91	50	170	355	865
	1977	400	167	747	185	449	1,133	3,081
Near-East	1965	33	23	6	8	100	68	235
	1970	63	42	9	29	220	410	773
	1977	296	142	90	176	761	1,592	3,057
Other Asia	1965	29	10	44	36	155	365	650
	1970	21	8	23	62	115	235	464
	1977	34	67	301	150	148	509	1,209
TOTAL	1965	205	115	195	115	500	940	2,090
	1970	330	170	190	180	720	1,390	2,980
	1977	1,106	593	1,344	681	1,934	4,125	9,780

Source: UN Monthly Bulletin of Statistics, various issues

The data reveal that CMEA exports to the Near-East show the greatest increases. The share of the Near-East markets increased from 11 per cent to 31 per cent between 1965 and 1977. The export performance of CMEA countries in Latin America was also above the developing country group average. There is a considerable decrease in the relative share of the African and Other Asian (mostly countries of the Indian sub-continent) markets despite the expansion of CMEA exports to such oil-producing countries as Algeria, Libya and Nigeria. The share of the Near-East in CMEA machinery exports increased from 7 per cent to 38 per cent, and that of the Latin American markets from 20 per cent to 28 per cent, whereas the market importance of the Other Asian countries decreased from 31 per cent to 12 per cent. At present, the commodity structures of CMEA exports are most advanced in the Near-East area, where machinery represented 52 per cent of the exports in 1977, compared with 29 per cent in 1965. For the expansion of industrial exports of CMEA countries, there is an additional problem in that their previously biggest industrial markets (the African and Other Asian countries - where the average share of machinery represented more than 50 per cent in the sixties) have a below-average trade growth. Due to the different level of industrialization, the share of manufactured products is higher in exports to the Near-East (25 per cent in 1977) and African countries (24 per cent), compared with Latin American (15 per cent) and Other Asian (12 per cent) countries.

The dispersion of the structural parameters of CMEA imports from developing countries is more considerable (see Table 4).

Similarly to the patterns of exports, CMEA imports have tended to concentrate more on the Near-East and Latin American regions. The share of the Near-East region in CMEA imports from developing countries increased from 6 per cent to 24 per cent, and that of Latin America from 38 per cent to 45 per cent between 1965 and 1977. At the same time, Other Asian countries accounted for only 16 per cent in 1977 compared with 31 per cent in 1965. Regional specialization in imports is reflected in the fact that, in 1977, Latin America represented some 76 per cent of CMEA agrarian imports from developing countries, Near-East 87 per cent of CMEA mineral fuels imports, and Other Asian countries 45 per cent of the CMEA industrial imports. The other side of this regional specialization is that more than 80 per cent of imports from Latin America consisted of food, beverages and tobacco, and basically, agricultural raw materials (fodder as well as various tropical food products). For the Near-East countries, more than 75 per cent was represented by mineral fuels, whereas in the African and Other Asian areas, more than one-third of the CMEA imports was comprised of various industrial raw materials.

The growth of industrial imports is also largest in the Latin American and Near-East areas. The value of CMEA industrial imports has increased more than 26 times from Latin America, nearly 10 times from the Near-East, but only 4 times from Africa and less than 5 times from Other Asian countries. However, due to the low initial level of industrial division of labour, industrial articles represented, in 1977, less than 5 per cent of imports from Latin America and the Near-East, whereas they accounted for 33 per cent of CMEA purchases from Other Asian countries.

TABLE 4: CMEA IMPORTS FROM MAJOR DEVELOPING REGIONS, BY SITC COMMODITY GROUP: 1965, 1970 and 1977 (US $ million)

		SITC Group						
		0,1	2,4	3	5	6,8	7	0–8
Africa	1965	115	260	3	3	73	-	455
	1970	270	375	34	25	185	4	890
	1977	545	550	172	45	253	-	1,565
Latin America	1965	570	115	-	7	1	-	693
	1970	850	240	-	14	10	-	1,114
	1977	3,810	579	23	19	185	5	4,623
Near-East	1965	30	74	-	6	7	-	117
	1970	100	130	8	1	12	-	251
	1977	193	262	1,829	26	95	2	2,407
Other Asia	1965	170	290	-	4	105	2	580
	1970	210	425	6	6	215	4	870
	1977	490	535	71	37	464	28	1,626
TOTAL	1965	880	740	3	20	190	2	1,840
	1970	1,430	1,170	48	46	420	8	3,122
	1977	5,037	1,927	2,095	127	997	34	10,221

Source: UN Monthly Bulletin of Statistics, various issues

An analysis of the geographical patterns by countries indicates that the trade between developing countries and centrally planned economies is rather concentrated. In the average of the period 1965 to 1976, twenty developing countries accounted for nearly 90 per cent of the overall trade turnover with the CMEA countries. The concentration is even greater for the five largest partners (Cuba, Yugoslavia, Iraq, Iran, India) which purchased, in 1976, some 50 per cent of the CMEA exports and supplied more than 70 per cent of the CMEA developing country imports.

The geographic concentration is less pronounced, although also considerable, in the industrial division of labour. One country, Yugoslavia, represented in 1976 one-third of CMEA industrial purchases, while the share of the five largest industrial suppliers (Yugoslavia, India, Egypt, Argentina, Indonesia) in total, was more than 50 per cent in 1976 (see Table 5).

The share of the five largest exporters of manufactures among developing countries is nearly as high in CMEA imports as in the international trade. The commodity patterns for the largest developing partners, however, are not identical; such important industrial exporters as Hong Kong, the Republic of Korea, Brazil and Singapore - representing altogether nearly 50 per cent of industrial exports of developing countries - have only a small share in CMEA industrial imports. The geographical patterns of industrial division of labour among centrally planned economies and developing countries indicate that the CMEA countries contribute significantly to industrial growth in developing countries, particularly those that have found it difficult to penetrate the markets of the developed market economies.

Besides Yugoslavia, which is basically an industrial exporter in CMEA, trade flows between CMEA and many developing countries are already based to a considerable extent on the division of industrial labour. The share of manufactures in total exports to CMEA countries is higher than 40 per cent for India, Egypt, Indonesia, Pakistan and Bolivia; between 20 and 30 per cent for Bangladesh, the Syrian Arab Republic, Malaysia and Peru.

On the other hand, the relatively higher share of developing partner countries - being "late-comer" exporters, and sometimes on the periphery of the international division of industrial labour, and having less experience in industrial trade - represent, quite often, additional difficulties in furthering and accelerating industrial co-operation between the two country groups.

1.4 Relative Economic Importance of Trade Flows

The indicators of relative importance reveal the size and character of economic interests connected with the division of industrial labour between the European centrally planned economies and the developing countries. In the total turnover of the CMEA countries, the share of the developing countries increased from 13 per cent to 15 per cent between 1965 and 1977 (see Tables 6, 7).

The relative importance of developing countries trade has increased for the Soviet Union, Romania and Hungary in recent years. At the same time, for these countries and Czechoslovakia, the relative importance of trade with developing countries is greater than for other CMEA countries.

TABLE 5: MAJOR CMEA IMPORTS FROM SELECTED DEVELOPING COUNTRIES: 1976

		USSR	Czechoslovakia	Romania a/	Hungary
India					
Chemicals	(%)	5.3	0.4	0.3	7.6
Machinery	(%)	5.4	0.6	1.3	6.7
Other mfrs.	(%)	32.6	29.4	6.5	22.4
SITC 5-8	($m)	216	13	3	11
Egypt					
Chemicals	(%)	5.3	-	na	2.2
Machinery	(%)	-	-	na	4.0
Other mfrs.	(%)	40.3	22.8	na	26.9
SITC 5-8	($m)	198	16	na	8
Yugoslavia					
Chemicals	(%)	5.8	5.3	2.4	15.6
Machinery	(%)	36.3	42.8	36.9	21.7
Other mfrs.	(%)	15.7	42.3	5.0	38.8
SITC 5-8	($m)	684	249	45	91
Indonesia					
Chemicals	(%)	-	-	-	-
Machinery	(%)	-	-	-	-
Other mfrs.	(%)	84.5	3.0	na	na
SITC 5-8	($m)	31	4	na	na
Argentina					
Chemicals	(%)	-	4.0	10.0	13.4
Machinery	(%)	-	-	-	-
Other mfrs.	(%)	11.3	35.8	-	9.5
SITC 5-8	($m)	33	7	7	1

na - not available
mfrs - manufactures
$m - US $ millions

a/ CMEA classification, 1977 data

Source: UNCTAD, Statistical Review of Trade Among Countries Having Different Economic and Social Systems, TD/243/Supp.1, 1979

TABLE 6: DEVELOPING COUNTRY SHARE OF CMEA COUNTRIES' TRADE: 1965 to 1977
(per cent)

	1965	1970	1975	1976	1977
CMEA Exports					
Bulgaria	8.0	9.3	13.9	10.9	12.6
Czechoslovakia	13.3	13.4	12.9	11.4	11.9
Germany DR [a]	7.3	7.4	7.6	7.3	7.4
Hungary	10.0	9.0	13.8	12.9 [c]	14.4 [c]
Poland	10.4	9.2	10.5	10.0	10.5
Romania	8.0	12.7	20.9	21.3	18.9
USSR	19.9	23.0	21.6	21.3	24.0
CMEA Imports					
Bulgaria	7.1	7.5	6.7	7.2	6.7
Czechoslovakia	11.3	10.2	9.6	8.8	9.5
Germany DR [a]	8.2	6.0	7.0	8.0	8.1
Hungary [b]	9.7	9.8	11.0	11.3 [c]	11.7 [c]
Poland	11.9	7.2	6.4	5.7	7.5 [b]
Romania	6.4	8.6	15.4	20.1	17.1
USSR	16.5	17.1	19.4	18.0	19.0

a Estimated

b Imports c.i.f.

c Data are not comparable with previous years because of different method of calculation.

Source: UNCTAD, <u>Statistical Review of Trade Among Countries Having Different Economic and Social Systems</u>, TD/243/Supp.1, 1979

TABLE 7: INDUSTRIAL TRADE OF SELECTED CMEA COUNTRIES WITH DEVELOPING COUNTRIES: SELECTED YEARS (per cent)

		Chemicals SITC 5		Machinery SITC 7		Other mfrs. SITC 6-8		Total SITC 5-8	
		Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.
CMEA	1965	11.3	0.0	15.7	0.0	9.2	0.0	12.5	0.0
	1970	12.5	2.4	15.6	0.1	8.8	5.2	12.5	[illegible].4
	1973	10.1	1.9	11.8	0.2	7.6	5.1	10.1	2.2
	1976	11.7	2.1	13.1	0.2	9.1	4.2	11.7	2.0
	1977	14.7	2.1	13.3	0.1	9.6	4.4	12.0	1.8
Czechoslovakia	1976	6.6	4.0	11.8	3.5	12.1	11.2	11.8	5.6
	1977	6.3	4.4	12.4	3.0	13.0	11.9	12.1	5.4
Hungary	1976	16.3	3.4	13.4	1.5	14.0	8.7	13.9	4.3
Romania [a]	1975	34.6	9.0	27.0	2.2	12.0	6.0	23.2	3.3
	1977	18.6	8.8	28.0	1.6	7.3	4.4	19.9	2.3

a Commodities in Romanian trade are classified according to CMEA classification

Source: UN Monthly Bulletin of Statistics, various issues;
UNCTAD, Statistical Review

Due to the differing foreign trade sensitivity of the respective CMEA countries, the relative macroeconomic importance also differs; the value of exports to developing countries in 1977 represented some 3 per cent of GNP in Hungary, Bulgaria and Romania, 2 per cent of GNP in Czechoslovakia, 1 to 1.5 per cent in the Soviet Union, Poland and the GDR.

As a consequence of the changing international price structure and increasing East-West trade, the relative importance of the division of industrial labour with developing countries is lower than it is in total trade and it has tended to decrease since 1965.

The relative size of CMEA industrial imports from developing countries reveals that there is still considerable room for further expansion and diversification of developing countries' industrial exports. On the other hand, the CMEA share of total trade with developing countries is less than 5 per cent. A higher level of trade is therefore a pre-condition for the evolution of mutual adjustment and international co-operation.

2. PROFILES OF PAST AND PRESENT INDUSTRIAL CO-OPERATION

2.1 Main Characteristics of Industrial Co-operation

The specific characteristics of industrial co-operation between the two country groups have been carefully analyzed by international organizations and economic experts from the various countries since the early sixties. Extensive and professionally high level literature on the subject has become available during recent months.[1/]

Due to the lack of adequate and internationally comparable statistical data on the subject, this paper cannot systematically quantify the basic characteristics of industrial co-operation. It merely covers the most relevant aspects.

At present, the main field of industrial co-operation between the two country groups is represented by the transfer of CMEA technologies to developing countries within the framework of economic and technical co-operation agreements. The European centrally planned economies completed, by mid-1978, 2830 projects in developing countries, and were engaged in more than 1200 projects in these countries.

The most important industry involved in these projects is power engineering, where some 650 electricity generating projects have been completed in developing countries in co-operation with the CMEA countries. The exploitation of mineral resources, requiring huge investments and substantial financial resources, is also a priority field of industrial co-operation. Metallurgy, particularly in the iron and steel industry, ranks third in importance.

The various branches of the engineering industries (motor vehicles, tractors, machine-tools, electrical equipment) as well as some agriculture-based industries (slaughter-houses, sugar refineries, etc.) were also included among the co-operation priorities. The main areas of co-operation with the developing countries reflect certain specialization characteristics of the respective CMEA countries. The USSR is a pioneer in developing hydro-electricity, mining, oil and gas, as well as steel industries. The German Democratic Republic and Czechoslovakia specialize in the mechanical and electrical industries; Hungary specializes in some branches of the electrical industry and in bauxite mining, pharmaceuticals and bus production; Bulgaria has gained a market share in developing countries by establishing agriculture-based and food processing projects; Poland specializes in coal mining, shipbuilding, electricity-generating equipment; Romania specializes in the oil industry, fertilizers and wood processing. Forms of co-operation and resource transfers however go beyond these lines of specialization.

Developing countries basically supplied the needs of the metallurgical industries and the products of some light industries to the CMEA countries. Quite often, long term agreements

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1/ See UNIDO documents <u>Trade creating industrial co-operation between developing countries and Socialist countries of Eastern Europe</u>, ID/WG.299/2; and <u>Trade creating industrial co-operation of the Soviet Union and the other CMEA countries with developing countries</u>, ID/WG.299/9.

provided for a partial repayment in industrial products of the engineering goods delivered by CMEA countries. According to experience, such contracts were instrumental in increasing mutual industrial trade, particularly for much-needed goods. The division of industrial labour between the centrally planned economies and the developing countries is characterized by the exchange of capital- and skilled labour-intensive products for labour- and natural resource intensive commodities.

2.2 The Transfer of Resources

The character of the division of labour to some extent explains the type and magnitude of the resource transfers. As countries with medium per capita income levels in international terms, CMEA countries do not readily dispose of any capital surplus. Nevertheless, the commodity structure of their exports to developing countries, besides contributing to the acceleration of the development of their partners, generated an increasing flow of financial resources from the CMEA area to the developing countries. The stock of long term development credits granted by CMEA countries to the developing countries accounted for 5 billion roubles in 1965, and some 15 billion roubles ten years later.[1/] It is estimated that some 79 per cent of these credits financed the transfer of CMEA technologies to the key industries of many developing countries.

In the external financing practices of the CMEA countries, grants are made only in emergency cases: they are used mostly for education and health purposes. It should be emphasized, however, that the conditions of credit (interest rates, repayment periods, period of grace, repayments, etc.) granted by the CMEA countries to developing countries are more favourable than those available from international credit markets, and thus they include some grant elements. It could be added that, from the beginning of the sixties, the new credit practices of the CMEA countries have favourably influenced the international credit markets for the developing countries.

The desired product structure of CMEA exports to developing countries requires that the transfer of technology should contain not only the flow of equipment, but also the transfer of technical knowledge. One channel of this transfer is in the handing over of technical documents, solutions to industrial problems or documentation of innovations, feasibility or design studies, etc. to the developing countries. Another channel of resource transfer is in the training of local experts so that they can manage newly established businesses. According to information from the CMEA Secretariat, over 40 higher educational and specialized secondary educational establishments, and over 110 professional and technical schools as well as vocational training centres have been built in developing countries. Training in the CMEA member countries has involved over 41 thousand students, post-graduates and trainees from 108 developing countries. These students were studying at higher and specialized secondary educational establishments. It should be pointed out that there is no problem of "brain drain" from the developing countries to Eastern Europe. There is, if any, a trend in the other direction.

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

It should also be emphasized that the present size of the flow of resources to developing countries must not be assessed only in quantitative terms. The comprehensive and co-ordinated character of the CMEA flows, the planned channelling of the resources to definite purposes facilitates the maximization of the "structure-creating" impact. In a number of developing countries, modern industrial structures have been brought about within historically short periods as a result of co-ordinated technological, financial and product transfers from the CMEA area.

2.3 The types of Trade Agreements

Papers presented to or prepared in various UN organizations give a comprehensive description of the types and mechanisms of the trade and co-operation agreements. Due to the mutual requirements, possibilities and interests of trade promotion, economic relations between the CMEA countries and the developing countries have expanded in a framework of bilateralism. There is no conceptual approach in CMEA countries which considers bilateralism as an everlasting, exclusive arrangement with an edge of discrimination against third countries. The endeavours of regional co-operation in the developing countries have not yet made possible multilateral co-operation with any developing country group. The intra-regional co-operation of the CMEA countries has only recently begun and is now at a stage where the conveniences and possibilities of multilateral co-operation with third countries can be assessed. It seems that in the years to come, bilateralism will express more the specific national interests connected with expansion of trade relations, stability of trade flows, easing bottle-necks in hard currencies, and diverting trade in convenient directions. At the same time, some CMEA countries have started to study the possibility of co-operating in industrial projects included in the regional agreements of some developing countries and establishing joint ventures, the products of which would be marketed on a regional basis.

A much higher flexibility and diversity can be registered in payment arrangements usually included in bilateral intergovernmental trade agreements. In the sixties, payments were generally regulated by 'clearing agreements'. Clearing agreements have proved to be quite instrumental in opening up new trading opportunities in the initial stages of economic relations. At a certain level and intensity of trade flows, payment in convertible currencies creates additional trade and eliminates obstacles to more sophisticated forms of industrial co-operation. The share of developing countries having payment agreements in convertible currencies with the centrally planned economies has been more than doubled in the trade turnover between 1965 and 1977.

Besides the contractual frames of industrial co-operation, the organizational aspects are also quite important. The public sector in developing countries was the basic pillar of co-operation between the two country groups. A decisive share of public sector involvement as partner is obviously favourable for the foreign trade enterprises of the centrally planned economies - who can then create more favourable conditions for long term structural transformation and more complex forms of industrial co-operation. On the other hand, experiences show that the State trading sector in developing countries tends to have bigger requirements of external financing due to its uncertain budgetary background. State foreign trade in developing countries shows a higher sensitivity to political or personnel changes which might adversely affect the continuity and atmosphere of co-operation. These circumstances explain, to some extent, why the share of State trading partners has decreased in the trade turnover, and in the late seventies does not represent much more than 50 per cent of it.

The changes in contractual, organizational and commodity structures are closely correlated with the expansion of more complex forms of co-operation at the enterprise level too. The transfer of technologies, high-technology goods, know-how, and the development of an intra-branch industrial co-operation, and business deals with high risks require, more and more, the organizational integration of the co-operating enterprises. In recent years, joint ventures have contributed much to promoting industrial co-operation. Hungary, Poland, Czechoslovakia and Romania among the CMEA countries, and India, Iran, Iraq, Brazil, Peru, Argentina and Nigeria among the developing countries, have made the most use of these forms of trade promotion.

The size and character of business operations in some industries is beyond the capabilities of some smaller CMEA and developing countries. In the sphere of inter-firm co-operation in recent years, one can notice an increasing trend towards arrangements including more than two partners from various countries. Enterprises from several centrally planned economies have joined forces to establish projects in developing countries. Tripartite co-operation involving enterprises from developing countries, European centrally planned economies, and developed market economy countries are being carried out in an increasing number of cases. At present, there are 200 of such tripartite projects in operation. The most active promoters of these projects include USSR, Poland and Hungary among the CMEA countries, the Federal Republic of Germany, France and Austria among the OECD countries, and the oil-producing countries of the Third World.

2.4 The Constraints in Present Co-operation

The constraints of present co-operation reflect a great variety of background factors and cover a wide range of economic activities. The first group of constraints is connected with deficiencies of development strategies in both country groups and the lack of adequate co-ordinating mechanisms. Despite the dynamic progress of trade relations and the initial favourable results in comprehensive co-operation in industrialization and planning during the first two decades of industrial relations between the CMEA and developing countries, this co-operation:

- did not generally become an integral part of the long term economic development plans of the CMEA countries because of political changes;
- did not fully meet the requirements of the planned long term development of the different developing countries either, due to restrictions arising from the decision-making structure of the system of economic management in the developing

countries, and to the absence or inadequate implementation in these countries of long term industrial development plans;

- did not establish closer, modern and complex direct relations between industrial enterprises of the CMEA countries and the developing countries;

- it strengthened the role of the CMEA countries as industrial suppliers on the one hand, and the role of the developing countries as purchasers of manufactured products on the other.

As a result of rapid industrialization in some developing countries and as a consequence of deficient industrial co-operation and lack of co-ordination between the two country groups, the first problem of a growing structural competitiveness started to emerge in the seventies. Although the apparent complementarity of foreign trade and economic structures of the two country groups has been a basic element of the increasing co-operation, in the export supply of certain industrial product categories (light industrial and electronic products) a growing similarity and competitiveness can be noticed. The lack of co-ordination in industrial development policies and the overlapping in supply structures explain the low growth of CMEA consumer goods exports to developing countries. This competition between the centrally planned economies and the developing countries in the markets of developed market economies has certain consequences for the relative market share and the relative price level of products in international oversupply. This trend might even raise political issues if the sphere of competitiveness is widened by export drives from transnational enterprises that have production bases in the developing countries.1/

Certain constraints are connected with the sphere of industrial production. In the CMEA countries, a number of industrial enterprises and industries do not yet have sufficient research and production experience to develop and produce goods in tropical areas. The lack of climatic adaptation in production or in components adversely affects the utility of, and the demand for, the products. Conversely, the quality standard of many industrial products of developing countries is not high enough to comply with CMEA requirements.

The worst bottle-necks can be found in the commercial sphere. "Late-comer" industrializers and exporters - as the CMEA and the developing countries are - generally cannot rely on a historically developed and efficient marketing organization. Market organization becomes an issue of primary importance if co-operation between countries or enterprises is based on the division of industrial labour (particularly in the engineering industries). The trade in machinery requires very close and direct contacts between the partners, adequate delivery of

1/ A draft paper presented to the Sofia meeting of senior experts on industrial co-operation (4-9 September 1979) draws attention to the constraints stemming from the deficiences in policies and high-level administration and planning expertise of developing countries with respect to the handling of conceptual, bargaining and implementation problems of more complex co-operation projects. See UNIDO, Restructuring and Industrial Co-operation, Draft 1, 17 August 1979.

spare parts, after-sales services and maintenance of machinery, and further technical development of the imported technologies.

The smaller enterprises of some small CMEA countries quite often find it difficult to efficiently establish complex long-distance operations. Local representative agencies are also generally inadequate for such development tasks. Local agencies that have good trade contacts and market networks have usually already committed themselves to selling American, Japanese or West-European products. Furthermore, the development of local market organizations has often been hindered in developing countries because of economic considerations.

The picture of market organization by developing countries in the CMEA area is even less favourable. Among the developing countries, only Yugoslavia, Cuba, India, and Egypt have government trade representation in CMEA countries, and enterprise representation is very rare indeed. In the increasingly competitive world trade environment, no substantial growth in industrial exports can be expected without a well-functioning market organization.

The lack of an adequate market organization explains the relatively high and stable share (15 to 30 per cent) of shippers and other foreign intermediary trade organizations in the total turnover. Lesser industrial trade items are usually traded through Western shipping firms.

The information gap closely connected with conceptual, institutional and organizational problems is also one of the biggest obstacles to industrial co-operation between the two country groups. The acceleration of changes in technology, economic development, and changing market situations is much more pronounced in industry (particularly in the engineering industry) than in any other economic sector. An intensive and rapid flow of technology, production, marketing, etc. information is a basic element and requirement of the international division of industrial labour. This is even more urgent for the CMEA countries because of the lack of a historically developed traditional co-operation system. In recent years, the CMEA countries have extended their market studies and advanced trade-promotion techniques. However, the intensity of trade information flows can still not be considered satisfactory. The trade advertising and market research activities of developing countries are in a very initial stage or are non-existent. The level of information on the intricacies of marketing available to traders and manufacturers in developing countries is, therefore, far from adequate.

As a consequence, the information gap is quite wide open with respect to trade and co-operation opportunities arising in the markets of the partner countries. The possibilities of information exchange through consultation, seminars, study trips, etc. organized by some international organizations have not been fully exploited either. The information area, which is considered by many scientists as basic to economic development has lagged behind, rather than led international industrial co-operation.

3. CURRENT AND FURTHER TRENDS IN INDUSTRIAL CO-OPERATION

Before analyzing the volume, structure and direction of industrial co-operation between centrally planned economies and developing countries, it may be expedient to summarize the most relevant global and regional trends affecting future industrialization and international co-operation patterns. Development and trade nowadays must increasingly be seen as an integral part of global processes. Development brings along with it structural changes, not only in national economies, but also in the international economic system.

3.1 Global Influences on External Conditions of Industrialization and Industrial Co-operation

The processes that have been ripening for several years in world economic development and the international division of labour, erupted with explosive force in 1973-74, producing a lasting change in the "business environment" for industrial development. The growing internationalization of industrial development and the rapid intensification of the international division of labour increased the role of external factors in the rate, direction and efficiency of industrial development. The increase in the significance of external factors is related to factors appearing on both the side of use-demand and on production-supply.

Statistics show that, since the early seventies, there has been a world-wide decline in the growth rate of demand for manufactured goods.

The annual average growth rate of industrial demand in the developed market economies and the CMEA countries is at least 1 per cent lower than the average for the period from 1960 to 1974. An increase in the growth of consumption can only be found in the average for the developing countries. In the seventies the expansion of demand was held back in many countries by deteriorating external currency deficits. Increased budgetary deficits in recent years are reducing the earlier demand-induced growth rate in public spending, while, over the past decade, the stagnation of private capital investment in response to increasing State intervention is having the same effect on the capital goods market.

Demand in the developed market economies is steadily shifting towards the services sector: a process that has begun in the more industrialized socialist countries also. It is only in the developing countries that the demand for manufactured goods is a carrier of economic growth. Parallel with the transformation of the structure of consumption, growing differentiation can also be seen in the growth, by product group, in the demand for manufactured goods.

There have also been important changes in the regional structure and dynamics of the import demand for manufactured goods. The industrialization of the previously less-developed socialist economies and developing countries has reduced the import demand for consumer goods that can be produced on a lower level of vocational training and technology. A rising level of incomes is having a similar effect in the more developed countries. The growth of demand for the products of a large number of industries that are lagging behind has shifted to the countries on a middle level of development or to the developing countries.

There has been a rapid growth in the seventies in the organizational concentration of consumption. Department stores and closed-chain enterprises, extending from the producer to the consumer, are emerging on the markets for an increasing number of manufactured goods. The growth in the share of large-store commerce and of closed-chain retailing is encouraging the spread of closer forms of international economic co-operation in retailing, and is increasingly creating a disadvantageous market situation for producers and sellers excluded from such marketing organizations.

The accelerating structural transformation of the world economy in the seventies, however, is related not so much to demand as to developments in international supply.

The growth of production in many industries has been shifted towards developing countries with lower cost levels. The main stages in the geographical expansion of industrial development of great importance for the international industrial division of labour in the quarter century following the Second World War, were the industrialization of Eastern Europe, of Southern Europe, and then the developing countries of the Far East and Latin America. From the second half of the seventies, the process has gained new impetus from the acceleration and new directions in the industrialization of the oil-producing countries and the People's Republic of China.

As a consequence of industrial proliferation and relatively slow redeployment, international over-capacities started to emerge in the seventies; first in the textiles industry and later in other labour-intensive industries such as footwear, consumer electronics, light engineering, steel making and shipbuilding and, recently, plastics, man-made fibres, and refineries, which were included in the 1950s and 1960s amongst the most dynamic product categories. However, as a result of the increasingly vertical nature of the development of the newly industrialized countries, the supply of certain industrial raw materials is becoming relatively restricted.

In the seventies, the concentration of production and market power accelerated in the industries in the vanguard of technical progress which is now largely controlled by transnational corporations. As a result of the growing concentration of market power, it is now more difficult for outsiders to acquire advanced technology, and in high technology industries, new producers are unable to join in the international division of labour.

Internationally, a shift can be registered in the relative importance of growth factors. Because of the relative scarcity of certain natural resources, advanced technologies and human skills, relative prices of products embodying these factors, have increased. Conversely, the relative prices of products having inputs of lower skills and less advanced technologies have decreased. Low investmentment activities in developed market economies, capital surpluses in some developing countries without adequate absorption capacity, resulted in a high international liquidity, lower relative capital costs, and easing strains from capital shortage. However, an up-turn of investment activities in the developed market economies will probably reduce the capital supply for the eighties.

3.2 Structural Change in the Centrally Planned Economies

Partly as a result of the long term socio-economic development of the CMEA countries, and partly as a consequence of changing external relationships, new structural changes are emerging in the CMEA countries. Taken as a group, these countries achieved an average annual growth rate in GNP of 7.5 per cent during the period from 1950 to 1977. Industrialization was the basis of this growth. Within the industrial sector, heavy industry represented more than two-thirds of manufacturing value added.

International division of labour has contributed increasingly to economic development, and at the same time has increased the sensitivity to external influences. At the end of the seventies the ratio of exports to national income in CMEA countries varied between 0.06 (USSR) and 0.5 (Hungary, Bulgaria). In the seventies some effects of industrialization have also appeared in CMEA extra-regional exports. In the average of extra-regional exports of the CMEA countries, industrial products accounted for 40 per cent; and for the German Democratic Republic, Czechoslovakia and Hungary this ratio reached 0.65 to 0.75.

CMEA countries have now entered a new stage of economic growth. In the majority of CMEA countries, the manpower reserves accumulated prior to industrialization are almost exhausted; labour is becoming scarce, relative wage costs are increasing, and substitution of labour has first priority in an increasing number of industries.

New problems must also be faced in regional raw-material supply. The industrialization of previously less-developed CMEA countries has increased the demand for raw materials and energy, while natural and cost-effective constraints are adversely affecting the expansion rate of production in primary industries.

Because of the rapid industrialization and structural adjustment that has occurred during the past thirty years, there is now, particularly in the heavy industries, a critical need for advanced technology and market research.

This simply means that there is now a pressing need for improved productivity and an increased reliance on the international division of labour.

The implementation of strategies adopted before 1975 was considerably hindered by external changes after 1973. The changes in relative prices adversely affected some CMEA industrial exporters. For Hungary, for instance, there was a 20 per cent deterioration in the terms of trade between 1973 and 1978, and rising protectionism and lagging demand in developed market economies did not allow any compensation through quantitative increases. They, therefore, had to search out new trading partners.

It should be pointed out that the accumulated experiences in carrying out joint CMEA investment projects are making it increasingly possible for the CMEA group to participate in international co-operation projects on a much larger scale with individual States.

3.3 Structural Change in the Developing Countries

Industrial development in developing countries has affected the international industrial division of labour.

In the countries representing the greater part of the economic potential of the developing countries, industry has become the leading sector in the national economy. Some Latin American and Far-Eastern countries are, therefore, about to enter the group of semi-developed economies.

In many developing countries, industrialization has now grown beyond the framework of import substitution, growing export orientation has created industrial export capacities which are substantial even on international levels, and are already influencing the international market for several commodities.

As a result of the export-oriented industrialization (mineral fuels excepted) manufactured goods represent greatest growth area of supply from the Third World. The percentage share of manufactures in total exports (excluding mineral fuels) increased from 25 per cent to 45 per cent between 1965 and 1976[1/] and it can be expected to grow further by 1985. Thus, with the exception of the oil-producing countries, developing country manufactured exports will be, possibly by 1985, a major feature of the international division of labour. Any country trading with developing country partners has to take into consideration that the basic commercial policy interests of the partner(s) are increasingly attached to the promotion of industrial exports.

As to the structure of industrial exports of developing countries, it seems probable that countries well-endowed with natural resources will try to exploit the advantages of higher relative prices and to combine primary with processed exports. Some oil-producing countries, for instance, have good chances of linking their fuel exports to increasing petrochemical sales. Similar trends can be expected for non-ferrous metals, timber, hides and skins. The strongly differing demand patterns between developed market economies and developing countries do not facilitate an expansion in developing country iron and steel products.

Labour costs and the low elasticity of demand in highly industrialized countries would indicate an expansion of light industry exports from the developing countries. The growth of these industries is a function of redeployment. Labour-sensitive branches of the engineering industries (durable consumer goods, spare parts, mass-produced articles) seem to be the most promising fields of industrial exports. As a result of structural changes, by the middle of the eighties, the products of engineering industries will probably represent some 30 per cent, chemical products 10 per cent, and metallurgical industries 5-10 per cent of the total industrial exports of developing countries. Structural changes indicate that the future role of developing countries in the industrial division of labour will not be limited to supplies for light industrial products.

1/ UNIDO World Industry since 1960: Progress and Prospects, UN.1979, pp. 141

The increasingly vertical nature of industrialization in the developing countries requires assistance of a technical and organizational nature (to establish higher vertical production structures and to raise the level of processing). As in recent years, future political, financial, monocultural and import-dependence problems will be of less importance for the developing countries. However, problems related to reducing the technical and market organization dependence of the new industries are emerging.

Industrialization also affects the industrial import structure of developing countries. The spreading of petrochemical industries among developing countries has decreased the share of this product category in total developing country imports. Similar trends can be forecast for most SITC 6-8 categories. The growth of import demand of developing countries will be centred around investment goods, e.g. machinery and related high-quality products. By the second half of the eighties, engineering products will probably account for 45 to 50 per cent of the total imports of developing countries. It should be noted, furthermore, that the industrial enterprises of the more industrialized developing countries will demand higher shares, as sub-contractors or joint venture partners, in the engineering imports from highly industrialized countries.

From the point of view of the geographical pattern of trade flows, it is not irrelevant that the share of industrialized countries will probably decline in the imports of chemicals, light-industrial products, metallurgical products, and consumer durables. Industrial division of labour among developing countries will generally move into production of these goods, and there is a high probability that the markets will be dominated by the larger industrial exporters from the group of developing countries themselves.

3.4 Changing Roles of the Respective Country Groups in the International Division of Labour

The most significant features of the evolution of the world economy in the last two decades include the increasing integration of the political and economic spheres of decision-making and the increasing role of government in external economic relations. This could, to some extent, explain relationships between structural changes and shifts in the balance of economic power. The increased international bargaining power of the developing countries is one of the basic elements in this shifting pattern.

3.4.1 Co-operation between developed market economies and developing countries

Trade flows are increasingly affected by policy considerations in the international economic environment. Within the group of developed market economies, a growing concentration of technological, financial and trade power in the USA, the Federal Republic of Germany and Japan, tends to extend the scope for manipulating economic global strategies. The trade flows of the OECD countries reveal that trade in products of technological superiority and market power is dominated by OECD member countries, while the share of traditional external suppliers remains marginal.

With respect to enterprises, studies have shown that the enterprises which proved to be most adaptable in the past were those currently devoting more funds to research and development.[1]

Similarities can be found at the country level in the international division of labour. There is a strong correlation between the relative share of industrial imports from developing countries and total research and development capacity and the rate of structural transformation of the importing country. In 1977, the share of industrial products from developing countries in total industrial imports was 26 per cent for Japan, 22 per cent for USA, and 9 per cent for the Federal Republic of Germany compared with an average of 9.7 per cent for the OECD countries.

Those market economies having an above-average growth rate in the structural transformation of production and exports, as well as the biggest volume of machinery and capital exports, have a more intensive division of labour with the developing countries. Conversely, OECD countries lagging behind in structural transformation and currently applying more protectionist measures, have a below-average division of labour with the developing countries.

The present trends in the division of labour lead to two economic conclusions. The present industrial imports from developing countries are comprised of the products of industries that are showing the least growth in developed economies (despite productivity increases in those industries in the developed countries). Although international trade in these industries shows some growth, benefits are reduced by lack of specialization and unfavourable relative price movements. In the period from 1974 to 1977, the price index for industrial imports of the OECD countries increased from 142 to 206; in the same period Japanese export prices for light industry products decreased by 16 per cent, and electrical products exports decreased by 7 per cent; export prices for the Federal Republic of Germany decreased by 15 per cent for steel semi-manufactures, 18 per cent for fertilizers, and 4 and 10 per cent for radios and TV sets, respectively.[2] The increasing specialization of the developing countries on the products of the lagging-behind industries may lead them to a "price-ditch" and perhaps be a lasting source of deteriorating terms of trade.

Because OECD imports are increasingly concentrated from a few African, Asian and Latin American countries, the next generation of industrial exporters will face additional difficulties of access to the OECD markets. At present, no policies and mechanisms can be seen which might offset these effects.

3.4.2 Structural change in East-West trade

Between 1965 and 1975 there was no radical change in the structural pattern of trade between the two groups of countries. The share of processed goods in CMEA exports to the West

1/ H. Giersch: Über die Zukunft der Weltwirtschaft, Aussenwirtschaft, March 1979

2/ UN, Monthly Bulletin, Monthly Statistics of Japan amounted to 34 per cent in 1965 and 36 per cent in 1975.[1/]

Over the past twenty years, more than three-fifths of CMEA exports to OECD countries consisted of raw materials and foodstuffs, although the share of industrial products has increased considerably in recent years. It is evident that the present commodity structure of East-West trade will not greatly assist in future trade expansion.

Needless to say, the strengthening of East-West relations is connected not only with national, but also with international requirements related to the long term stability of world trade as well as to international security. Co-operation which includes only those industries of the OECD and CMEA which are lagging in growth cannot fulfil the economic functions or needs of East-West relations.

In the present stage of East-West relations, the main obstacles to the extension of trade involves OECD imports and CMEA exports. It cannot be doubted that, as a response to Common Market protection of agricultural products, the exports from the CMEA countries concentrated to a greater extent than perhaps desirable, on products of lagging OECD industries. It is obvious that even an eventual easing of Common Market protection of agricultural goods could only assist some CMEA countries. Owing to the expansion of the Common market, however, the relative market positions of the CMEA countries have deteriorated in recent years, especially for labour-intensive, light industry products.

In the given situation, the exports of CMEA countries cannot be expected to grow significantly because of small-scale structural changes; such change must be radical enough to affect the machinery industry. This industry is generally more resistant to tariff barriers. Growth could, however, be stimulated by industries which are less sensitive to minor tariff changes. The CMEA countries are in an advantageous position in such industries, even by international standards, because they have an ample labour force at their disposal, good research and development capacities, and large-scale production runs. A structural optimum of CMEA exports would consist of a not-too-wide, constantly changing, and, at the most, only medium-term-exploitable range of goods. Making use of these possibilities pre-supposes an extension of technical follow-up. It is of crucial importance for the technologically pioneering and strategically important CMEA sectors to join in East-West co-operation that is based on long term specialization. Naturally, such industries are not identical in the individual CMEA countries. The economic policies of the OECD countries may contribute significantly to an improvement in the conditions of co-operation.

1/ Bela Kádár: International Economic Development and Resource Transfer Workshop; Edited by Herbert Giersch, Institut für Weltwirtschaft an der Universität Kiel. pp. 257-272.

3.5 Perspectives of Trade between the Centrally Planned Economies and Developing Countries

The further growth of trade between centrally planned economies and the developing countries depends on several factors, some of which are of external origin.

On the CMEA demand side, two basic growth and structural adjustment effects can be expected. The growing internal use of primary products and the slowing growth of their production in CMEA countries indicates a lessening of self-sufficiency of material inputs in the CMEA region. Furthermore, to reduce interregional trade imbalances, the highest possible share of raw materials and semi-processed imports from the OECD countries should be diverted to the developing countries. The biggest item of CMEA purchases will probably be oil. It is likely that, by the end of the eighties, some 25 to 30 per cent of CMEA imports from developing countries will consist of oil. Incremental demand for oil and some other raw materials are most likely to be covered from other than CMEA countries in future. Non-ferrous metals, textiles, man-made fibres, and wood products are also likely to increase.

The other big structural change in CMEA demand is connected with increased processed raw materials imports (for industrial use) from developing countries; these will include, inter alia, petrochemical products. Increasing imports of canned food are connected with endeavours to satisfy a more diversified consumer demand in CMEA countries. In contrast with OECD countries, labour issues in CMEA countries do not represent significant obstacles to industrial co-operation with developing countries. In order to ease manpower shortages and to release manpower for priority industries, a number of CMEA countries are planning to hold back production of high labour-intensive processing industries and to meet a higher proportion of home demand through imports. Such purchases have already begun in the metallurgical, textiles, leather, shoe, and garment industries, and can also be expected to emerge in the railways rolling stock and building materials industries, and can also be expected to emerge in the railways rolling stock and building materials industries. A further area of increasing industrial imports is represented by engineering goods: spare parts, accessories and components, which are products in heavy demand in CMEA intro-regional trade and which currently comprise a fairly high proportion of purchases from the OECD countries. However, the enormous trade potential in this field can be exploited to a considerable extent by the developing countries if they can meet the quality standards and quantity requirements. These requirements can usually be guaranteed by long term inter-enterprise co-operation. It seems highly probable that, by the end of the eighties, industrial products will represent some 35-40 per cent of CMEA imports from developing countries, including Yugoslavia, and some 23-28 per cent excluding Yugoslavia.

Future CMEA exports to developing countries will probably follow established specialization patterns. However, new factors emerging in the world economy and in developing countries must be taken into account. Expansion of co-operation depends to a large extent on whether the development strategy priorities of the several partners are sufficiently taken into consideration.

In the three decades following the end of the econd World War, the CMEA countries concentrated their co-operation efforts, above all, on building up industrial production capacities, and especially the capital goods production capacities of the developing countries. Due to increasing international redeployment, the establishment of industrial production activities in the developing countries now faces far fewer external obstacles than it did one or two decades ago. The main problem area in international relations between industrially advanced and less developed countries is now the transfer of advanced technology rather than goods. Besides this, the growth processes of the developing countries also show that (unlike the previous situation) it is not simply the lack of industry that is producing imbalance in the economic structures, but human resources and industrial and social infrastructure should also be developed.

If the effectiveness of co-operation between the CMEA countries and the developing countries is to be increased, all sectors involved should be expanded in harmony. For instance, increased efforts by the developing countries for agricultural development calls for more co-operation in hydrological installations, agricultural and food industry machinery, and horticultural and veterinary laboratories.

With respect to infrastructure, previously the CMEA countries could play a much greater role than at present in development of the transport systems of the developing countries. Participation in development of the industries that support railway transport is particularly called for, since, by the middle of the next decade, the bulk of world engine and railway rolling stock production capacity will be in the CMEA and developing countries, and co-operation could determine the development of production, technology and trade for the entire industry at the world level. Furthermore, by international standards, the CMEA countries have substantial bus production and port crane production capacities, and their participation in establishment of maintenance and repair facilities in the developing countries could represent further considerable co-operation.

Public health and education facilities are an important area for co-operation. The CMEA countries could assist by supplying and operating factories to process basic materials for pharmaceuticals, laboratory instruments and hospital equipment. The development of the educational and specialized training network in the developing countries is rapidly increasing the demand for teaching equipment, demonstrative aids and apprentice workshops.

Increases in the price levels of raw materials and energy sources are encouraging development of extractive industries in many developing countries. So, besides assisting in prospecting and opening up deposits, the CMEA countries can contribute to the vertical processing of mineral resources, and industrialization plans based on the nationalization of natural resources. They also have an extensive power plant capacity that can be used by the developing countries for energy production.

Co-operation will have more effect if the CMEA countries assist in the development of a national technology base and in national research and development structures, ensuring the continuous modernization of production capacities - particularly those that promote the exploitation of local resources.

The establishment of a modern system of education and vocational training, scientific and research development in the developing countries, places greater emphasis on the transfer of scientific and technical information, documentation and specialized expertise. This will involve joint scientific research and technical development projects. Accordingly, co-operation among the different educational institutes, research institutes and science policy organizations should develop the basis of co-ordinated programmes - which will, in themselves, improve conditions for industrial co-operation. The low cost (by international standards) of drawing on the services of highly qualified specialists from the CMEA countries, enhance the advantages of co-operation.

Examples of industrial co-operation covering broad sectors also show that the new co-operation strategy based on the capacities and experiences of the CMEA countries, is not confined to the transfer of industries that are traditionally of slow growth, but are aimed at meeting requirements arising from accelerated modernization and new development strategies in the developing countries themselves.

CMEA long term development plans provide for an increase in the share of trade with developing countries. As a result of an estimated 9 to 12 per cent increase in yearly average (real terms) of the trade with developing countries in the next decade, their share is estimated to account for 16 to 18 per cent in the trade turnover of the CMEA countries by the end of the eighties. Because of this, the average growth of industrial co-operation and division of labour will be the most important field of trade relations between the two country groups.

4. EXPECTED PROBLEMS FOR CO-OPERATION BETWEEN CENTRALLY PLANNED ECONOMIES AND DEVELOPING COUNTRIES

4.1 Implications of Expected Changes for Co-operation

The restructuring of world industry, and an industrial expansion in developing countries based on factor endowment and national socio-economic requirements (as well as an increasing division of labour between centrally planned economies and developing countries) requires a new, comprehensive strategy of co-operation. This strategy must include new conceptual approaches, as well as contractual and/or implementation elements, in compliance with recent patterns developing in international trade and structural transformation.

New conceptual approaches must pay special attention to the interdependence of the new international situation and such traditional development problems as choice of technologies, plant sizes, and market strategies.

In the absence of their own technological base, post-war industrialization of the developing countries was based on the import of labour-saving technologies from the developed market economy countries. As a result of the importing of these capital-intensive technologies, the employment-generating role of industry was insufficient to promote an industrial base. While trade imbalances and inadequate capital were the main growth bottle-necks in the fifties and sixties, in the seventies the strongest pressures in developing countries have arisen from increasing unemployment. The efforts directed at reducing unemployment also explain why the growth rate in the seventies for labour-intensive branches of light industry is more rapid and its export orientation is incomparably more dynamic than previously in the industrial history of the developing countries.

Furthermore, given growth constraints and possibilities, additional problems also arise from the fact that, since the end of the fifties, rationalization and the growth of productivity has been quickened in some lagging-behind industries in OECD countries. Thus, for some time now, the most export-oriented branches of light industry in the developing countries (which have recently been expanding rapidly) have been forced to import technologies which increase the rate of manpower substitution.

The need for maximizing employment again raises the question of choice of technology. Certainly, labour-intensive technology is not a realistic alternative in the basic or heavy industry processes; in metallurgy; in most branches of a capital goods nature. Meanwhile, for a number of light industries, a number of different technologies can be applied which greatly influence cost levels and cost proportions, but which barely affect the quality level of the products manufactured. Both domestic and foreign markets are largely indifferent to the production technology selected for producing such commodities. The problem is, therefore, how to make the best use of labour-intensive technologies in the international division of labour.

Over the past decade, the literature on the dilemma of the selection of technology has generally proposed the solution of development and application of a so-called intermediary technology corresponding to the conditions available in the developing countries. However, in practice, such intermediary technologies simply do not exist in the developed market economy countries, and have not yet emerged sufficiently in the developing countries.

The long term solution to the increasingly acute problem is undoubtedly for the developing countries to establish their own technological and research and development bases. However, to achieve this, there must be shifts in emphasis in the development policies of the developing countries themselves, and in the structure of international technical and scientific co-operation. No such shifts are likely in the near future. However, Japan and some CMEA countries are capable of transferring less-capital-intensive technologies to industries that could be established in the developing countries.

In the CMEA countries, certain industries linked to advanced technology can also undoubtedly rely to a greater extent on the import of capital-intensive technologies from the advanced market economy countries. However, the traditional industries in the industrially more-developed CMEA countries have generally been developed on a national technical basis, taking into account the proportions of the available productive factors. Due to a chronic lack of capital, there has been a tendency to develop comparatively labour-intensive industries in some of the smaller CMEA countries. Introduction of the less capital-intensive technologies that have been developed in the CMEA countries' traditional branches (food, pharmaceuticals, textiles, garments, leather, printing, and railways rolling stock industries) could be of great importance in improving the degree of effectiveness in developing countries that are struggling with employment problems.

The technology that can be obtained from the CMEA countries in most of the sub-industries producing capital goods for key sectors of industry is also capital intensive. In this case the chief advantage of co-operation could arise from its effect as a countervailing force to dependence on the big market economy countries concentrating technological power in their hands. This, in itself, could improve the international bargaining power of the developing countries co-operating with the CMEA countries and, at the same time, favour the conditions for the transfer of modern technology and further its local development.

The regional location of most-efficient-scale capacities is an integral part of the dilemma of "how" in the industrial development strategy of the developing countries. Decisions in this connexion are derived partly from transformation of the structure of production, and partly from the selection of technology. One of the serious negative features of industrialization in the developing countries has been the emergence of regional inequalities and regional agglomerations, particularly import-substitution industrialization located around consumption centres. If this trend continues, it could lead to serious socio-ecological distortions and to the formation of unmanageable large cities in the more industrialized developing countries. Such industrial development, leading to agglomerations, could increase its social costs and could lead to the upsetting of social balance and guidance mechanisms.

It is essential, for both economic and socio-political considerations, to slow down or stop the flow of population from the country into the towns of these countries to be industrialized. The present undeveloped state of the infrastructure in the rural districts and the very limited capacity of local markets also influences plant scale, and leads to an increase in the importance of small and medium-scale plants (with the exception of the export-oriented plants processing local raw materials).

Besides preventing such agglomerations, smaller plant sizes tend to discourage investment interest from transnational enterprises. Thus, the question of plant scale now arises as a factor in national economic security. At the same time, the establishment of smaller plant scales is favourably influenced from the angle of international processes by the circumstance that the sub-branches of industries transferred to the developing countries are generally not sensitive to economies of scale and can also operate competitively in the form of small plants.

When the foundations of industry are being laid, participation in the creation of large plants naturally serves the creation of modern socio-economic structures. In the more industrialized developing countries, however, participation in the creation of smaller plants can considerably increase the effectiveness of industrial co-operation, even if the CMEA countries still consider the creation of large-scale plants to be the main method of industrialization.

The practice of international co-operation can assist in anticipating specific requirements of optimization of plant sizes. Furthermore, the CMEA countries supply labour-intensive technologies that are flexible enough to also be operated economically on a small scale. A number of CMEA countries have had both positive and negative experiences in regional development policy, involving both the industrialization of agricultural regions and the establishment of complex support systems. The developed technical and research basis of certain CMEA countries makes it possible to accelerate research work related to the miniaturization of technology and to the development and adaptation of modern technologies that can also be operated economically on a small scale. In the eighties, flexibility of co-operation practice related to plant scale could also be an important factor in making co-operative relations more effective.

As a result of the internationalization of the development of production forces, the importance of the so-called exogenous factors in the direction and effectiveness of the industrial development of different countries has increased during the seventies. This trend is likely to continue. International experiences show that in more and more industries, it is the organization, not of production itself, but of marketing that represents the most difficult task. The establishment of a suitable market organization is a vitally important factor for success, particularly in the branches of the engineering industry that require continuous and intensive relations between seller and buyer and extensive and complex after-sales services.

The industries of the developing countries have so far produced largely for local markets or have manufactured products where the need for marketing organizations was not so great. Development of the industrial structure of the developing countries and the strengthening of export-orientation by their industries are increasingly raising problems related to the establishment of export market organization. Co-operation in this area is, therefore, becoming an increasingly important condition for successful industrialization. Government intervention in support of marketing organizations is also becoming more common in the advanced market economy countries. The industrial export successes of the countries on a middle level of development, or of the more industrialized developing countries, are based to a significant extent on government assistance in marketing. The growing export protectionism of the advanced market economy countries and the market power of the transnational enterprises make it unlikely that countries just entering the international division of labour can establish viable positions without similar effective market organizations.

The planned economy countries that entered the international division of labour with a historical time lag have a great deal of experience on the problem related to establishing a State market organization. Besides passing on their experiences in this connexion, co-operation between the foreign market organizations of the CMEA countries and the developing countries in a number of areas could improve the external conditions for the industrialization of the developing countries.

CMEA countries can, for instance, be of some assistance in marketing the products of developing countries, particularly in the CMEA area. Within the framework of mutual co-operation, the marketing organizations already established by CMEA countries in the OECD countries can help developing exporters to enter the OECD market. At the same time, the developing countries can extend marketing assistance to the CMEA exporters in neighbouring countries or in regional co-operation areas. Furthermore, CMEA marketing organizations can promote the establishment of tripartite marketing co-operation in which involvement of the marketing organizations of the developed market economy countries can open up new possibilities for the division of labour.

Although co-operation in the field of marketing organization and marketing policy cannot draw on earlier experiences, its development during the seventies could significantly reduce the marketing problems of the developing countries, and thus stabilize their industrial production and exports in the eighties.

4.2 Prospects in Industrial Co-operation

Industrial co-operation calls for assistance at both the country and enterprise level. At the enterprise level, firms must gain world-wide experience in the transfer of modern technologies. They must:

- purchase industrial finished and semi-finished products that are "confidence sensitive" and more closely linked to technical development;

- purchase manufactured goods that influence the internal supply situation of the co-operating countries;

- call for joint involvement with enterprises that are moving outside framework of traditional foreign trade relations and that are seeking new markets for their products.

The latest trends in internationalization of production factors increasingly reflect a growing interaction of trade flows and a growing interpenetration among enterprises. Interfirm relations are increasingly becoming the concern of planned economies, since, in the absence of solutions guaranteeing lasting and stable co-operation, any market uncertainties may create additional problems for the enterprises of the CMEA countries that have grown accustomed to stability in the economic environment.

Over 2000 industrial co-operation agreements have been concluded between the centrally planned economies and their extra-regional partners. These agreements have taken such various forms as joint production (specialization), licensing and sub-contracting. Joint tendering and marketing involves long term relations, and range from the sphere of production, to financing and technical co-operation. Most of the CMEA countries have adequate organizational structures to enable them to establish such industrial co-operation ventures with developing countries.

The profit motive is less important for the CMEA countries than it is, for example, in the OECD economies. In the great majority of cases, co-operation among the CMEA countries, and East-West co-operation, is based on legal agreements not involving ownership ties. In the case of co-operation with the developing countries, the limited resources of the developing countries, and the need to spread the risks make it advisable for the CMEA countries to make direct investments - which creates ownership bonds between the co-operating enterprises.1/

The institutional and organizational characteristics of the enterprises in the CMEA countries favour the implementation of the product buy-back agreements, in which a developing country repays the deliveries to, or the investments in, a project constructed by a CMEA country. These agreements increase and stabilize the volume of mutual trade and improve the equilibrium conditions as well as the export performance and structure of the developing countries, by promoting their industrial exports.

Joint ventures are a practical requirement for modern industrial co-operation, particularly in industries that are more capital-intensive than average, involve more risk, and have a more rapid rate of technical development. They are useful for long term specialization while, in other cases, the extension of co-operation can be ensured on a contractual basis.

Joint ventures can be further developed in a number of directions; the resources of the joint venture can be used to extend the developing country activity to the investing CMEA country; or, they may gradually pass into the government sector of the developing country concerned. The CMEA

1/ A number of various important international documents have drawn attention to the positive experiences made with joint ventures, e.g. UNIDO, ID/WG. 299/5/77; UNCTAD, TD/243, etc.

countries look on co-operation involving joint ownership as an important stage of historical development towards international industrial co-operation involving and assisting developing countries.

Joint ventures and enterprises can be instrumental in fields other than the bilateral framework. From 1965 on, an increasing number of co-operation deals involved enterprises of more than two countries. The so-called "tripartite co-operation" includes one or more developed market economy countries in addition to developing country and CMEA participants.

Tripartite co-operation is usually motivated by efforts to maximize gains from specialization, to create adequate complementarity, and to accelerate the implementation. Quite frequently political aspects, such as the choice of partners, make tripartite deals attractive. As is pointed out in an UNCTAD study1/ the growing number of tripartite deals involve an increasing number of participating countries and a widening sphere of co-operation activities. In the mid-1970s, tripartite deals, however, amounted to only 6 or 7 per cent in value terms of all East-West deals. Needless to emphasize, successful tripartite deals require a much higher level of co-operating expertise, since the greater number of co-operating partners may multiply the problems of co-operation.

Industrial co-operation at the country level is facilitated by a number of institutional factors. Adjustment policies, and the redeployment of industrial activities in the broad sense, are organic parts of development and developmental strategies in CMEA countries. They are not exposed to business fluctuations and, in principle, can be easily co-ordinated with the interests of developing countries. A growing complementarity of the development needs, based on factor endowment, production and trade structures, is also favouring the division of labour between the two country groups. CMEA industrial imports from developing countries do not have to face political opposition connected with unemployment. The CMEA countries have had no trade barriers or discrimination against developing countries since 1965. Experience shows, that positive co-operation based on long term economic and trade agreements is needed in order to strengthen the division of labour between centrally planned economies and developing countries.

The course of industrialization in the developing countries makes the formulation of long term active industrial co-operation policy increasingly unavoidable. The experience of specialization agreements among the CMEA countries (and of such agreements among enterprises of the advanced market economy countries) indicates that a division of labour, both among countries and among enterprises, promising long term growth and stability, can be ensured most effectively through specialization agreements regulating the structure of production and trade.

Specialization agreements are motivated, not only by the need for the division of labour: the rapid industrialization of some developing countries might increase the structural similarities in the industrial export supply of the CMEA and the developing countries on Western markets. If

1/ UNCTAD, Tripartite Industrial Co-operation, TD/243/Supp. 5. Manila, 1979 the CMEA countries find difficulties in further advancing their industrial technology, such similarities, particularly for semi-finished products and light-industry goods, might eventually narrow the range of common interests between the CMEA and the developing countries. Conflict of interests resulting from this can be mitigated or eliminated by several approaches. An acceleration of the structural transformation and the modification of the product mix in the CMEA countries towards higher-technology goods satisfying a more sophisticated demand will automatically limit the supply similarities and lessen the likelihood of direct competition between developing and CMEA countries. A similar result could come from an intensified rationalization and liberalization of East-West economic co-operation (which could also eliminate the factors compelling the CMEA countries to export "price-sensitive" products).

However, one should not underestimate the possibilities of direct co-operation in this respect between the CMEA and the developing countries. It is in the interest of both the CMEA and the developing countries to collaborate to avoid wasting resources. For this reason, international economic policy co-operation must be gradually extended towards structural policy co-operation.

Structural policy co-operation by countries could operate in a number of areas. The first elements of structural policy co-operation between the CMEA countries and the developing countries emerged within bilateral country frameworks. A certain amount of co-ordination of the medium and long term development concepts of the different countries has already been started by the Ministries concerned and the State authorities responsible for planning. Thus, Commissions already operating offer a suitable framework for the further development of structural policy co-operation at the country level.

Specialization and harmonization of interests can be promoted also by improving the relations of the respective CMEA countries with the organizations of regional co-operation in the developing countries. CMEA countries, even unilaterally, can contribute to the implementation of certain regional projects as suppliers of certain investment goods and technologies as well as becoming the buyers of the products of the export-oriented new industries.1/

In the case of smaller countries, bilateral co-operation agreements between individual national economies can only partly modify the external conditions for industrial development. Participation of regional organizations adds a new dimension to the framework of co-operation. The requirements of the division of labour with the developing countries is being taken increasingly into account in the industrial integration strategy of the CMEA countries, and in the overall CMEA economic system. Furthermore, industrial co-operation with the developing countries would be much easier for the smaller CMEA countries if they could rely on third markets.

An increasing number of tasks relating to the transfer of information, the establishment of contacts and marketing organization can be performed at regional level in future. International co-operation authorities of the CMEA can sign structural policy co-operation agreements with

1/ Béla Kádár: Relaciones Economicas de Hungaria con Paises de America Latina, E/CEPAL/P POY.4/R.8, 1979 individual developing countries, and they can sign such agreements with the appropriate authorities of the various African, Asian and Latin American regional co-operation groupings. Such co-ordination at the regional level could exercise a significant stabilization effect in practically all branches and sub-branches of industry.

Détente has strengthened the need for further collaboration amongst the developed market economies, the CMEA, and the developing countries. The long term significance of such broad international co-operation justifies increased attention in the future from the various international organizations (UNCTAD, UNIDO, UNDP, regional economic committees, etc.) to encouraging the spread of multilateral co-operation, and their institutional role could also possibly be enriched by such involvement.

4.3 Possible Constraints in Industrial Co-operation

Apart from the constraints already mentioned, those of the future will most likely arise out of international politics - and probably from the developing countries, because of the increasingly global nature of industrial co-operation.

The problem of disarmament and détente are mutually and increasingly interrelated. An eventual weakening of détente, or any conflict connected with the scarcity of some natural resource, can use up the financial resources needed for the restructuring of the world economy. In an unstable international political situation, the possibilities for co-operation forms such as joint ventures, tripartite deals, etc. are rather unfavourable. Therefore, the issue of co-operation between the European centrally planned economies and developing countries cannot be isolated from those factors that are basic to the operation of the world economy or its more important sectors.

Unfavourable trends in East-West trade, increasing disequilibria connected with cyclical problems, protectionism, and strains on international credit markets might also unfavourably aff t the capacity of CMEA countries:

- to mobilize adequate central funds for financing overall structural adjustments domestically; and
- to increase funds for fina g machinery exports and other forms of technology transfer.

Growth of, and co-operation between, the centrally planned economies and the developing countries depends significantly on the efforts made by the developing countries in this direction. Good and stable political relations are an essential pre-condition for long term industrial co-operation. This is particularly so in the area of intra-industry specialization involving the orderly transfer of certain lines of production to the developing countries. Confidence-building measures in the political sphere are needed to overcome some political obstacles that CMEA countries face in their relations with a number of developing countries. The provisions of various UN General Assembly and UNCTAD decisions[1] state that the developing countries should grant to the CMEA countries conditions no less favourable than those they grant to the developed market economy countries. Such resolutions have not yet been ratified in a number of developing countries that apply discriminatory practices to the CMEA countries. The extension of such political and economic policy constraints could limit or exclude the development of some forms of co-operation.

A further, and complex, constraint involves the operations of transnational corporations in the developing countries. Apart from exerting a strong influence on the political development and foreign policy orientation of the developing countries, these corporations, in dominating a substantial part of the economic potential and international economic relations of the developing countries:

- try to expropriate a decisive part of the actual and potential benefits from trade relations of developing countries;
- try to divert a considerable part of the developing countries' foreign trade into intra-firm channels or related-country bases; and
- use restrictive business practices that hamper export potential.

Obviously, the CMEA countries cannot have any interest in co-operation designed to benefit such transnational corporations. Consequently, inadequate regulations or policies concerning the activities of the transnational corporations could represent a constraint for the future industrial co-operation between CMEA and certain developing countries.

An excessively weak role by government in the developing partner countries can also be a serious constraint. Increasing CMEA participation in the international division of labour, or in export-oriented industrialization, cannot be based on laissez-faire mechanisms. Structural development, the components of market competitiveness, the creation of an adequate monitoring and information base, the harmonization of increasingly complex economic interests, the usually weak bargaining position of new industrial exporters on international markets, the reduction of losses arising from the imbalance of power, call for a strengthening of the role of the State, and a greater centralization of economic power in the developing countries concerned. This could involve control over natural resources and investment; possibly a State monopoly of foreign trade and foreign exchange; and the establishment of an external marketing organization without which export-oriented sectors of the developing countries are generally unable to cope with the problems confronting them.

Among the possible constraints of more-intensive industrial co-operation, there is that of inadequate guarantees of supply. Inadequate supply security could be a justification for the CMEA retaining certain lines of production which could otherwise be produced in the developing countries.

1/ See, for example, the Charter of Economic Rights and Duties of States, General Assembly Resolution No. 3281, 1974.

Another category of supply constraints is connected with the competitiveness of the industrial goods originating from the developing countries. Past experiences have not indicated any constraints arising from price levels, the prices having been based on those of the world market. Bigger pre-occupations are centred around the quality of industrial imports from the developing countries. In many cases these products do not meet quality standards. A higher level of industrial co-operation and the export of highly processed goods, particularly engineering products, increases the relative importance of marketing and distribution constraints. The implementation of successful market strategies requires functional organizations, human-skills, high overhead costs and considerable economies of scale. Late-comer industrializers and industrial exporters generally have a comparative disadvantage in this respect: the financial rentability of marketing operations is particularly unattractive for instance in limited trade between countries with limited economic and trade potential. Slow progress of co-operation in this sector might hinder the industrial co-operation between smaller CMEA and developing countries, particularly in the scale-sensitive industrial branches.

Intra-industry trade and engineering exports of developing countries can be slowed down by inadequate financial and commercial infrastructures. Most of the CMEA countries are not abundantly endowed with financial resources. Under such circumstances they rely, for their industrial imports, on the credit facilities normal in international industrial trade. Compared with the developed countries, the developing countries are also disadvantaged in financing their industrial exports. Thus, possibilities of the CMEA countries in increasing industrial imports from developing countries are constrained to some extent by the financing capacities of the developing partner countries.

It is obvious that industrial co-operation between the CMEA and the developing countries must increasingly reflect the requirements of the growing internationalization of production emerging in the form of intra-industry trade through fragmentation of production processes. A serious constraint of co-operation can be eliminated by the reconsideration of the end-product syndrome that generally characterizes import-substituting industrialization. Most of the smaller CMEA countries, as well as the developing countries, have not been in a position to develop all the vertical production processing stages in the end-product manufacturing industries, and this in fact itself has limited export performance, since end-products cannot be sold on the international markets without an adequate supply of spare parts and components. A planned and regulated specialization of the two country groups on certain stages of the production process of a given product would considerably increase the volume of mutual trade and co-operation; would improve competitiveness and efficiency on third markets; and narrow the range of conflicting interests. However, this type of intra-industry co-operation requires the highest level of mutual confidence and stability of relations. It also pre-supposes the existence of efficient companies in the CMEA countries being able to operate on an international basis. Although the long term prospects of intra-industry trade between the two country groups are promising, even a successful step-by-step progress approach is quite sensitive to the aforementioned exogenous constraints.

Finally, mention must be made of the interrelation between the overall conditions of international economic co-operation and structural development, as well as the regional foreign exchange balance. It can hardly be expected that the considerable CMEA trade imbalance with Latin America and Asia could be covered by a surplus realized in trade with Africa. Without an adequately functioning international credit market, and its availability for 'East-South' trade, the overall target of a growing trade (particularly in machinery exports and industrial imports by the CMEA countries) must be reconsidered in the light of regional equilibrium situations.

Furthermore, it would be imprudent to forget about certain interrelations among the overall import capacities of the CMEA countries. Oil imports naturally widen the range of co-operation between the CMEA and the developing countries. The oil-exporting capacity of the Soviet Union (the basic source of supply until recently) cannot be expected to expand further. It is logical to assume that, by 1990, around 50 per cent of the energy imports of the smaller CMEA countries will be obtained from extra-regional sources. A rapid increase in oil imports from the developing countries, combined with a lack of foreign-currency reserves, might limit the CMEA import capacity available for the purchase of industrial products from developing countries.

5. SUMMARY AND CONCLUSIONS

Trade and economic co-operation between the centrally planned economies and the developing countries has been stimulated to a large extent by an accelerating structural transformation in both country groups. The present structures of these trade relations reflect a number of various factors, among them the heritage of historical development, geographic distances, differences in economic and social systems, the character of the development strategies, and the direct and indirect impact of international relations.

In recent years, trade relations between the two country groups have been characterized by high rates of growth and substantial changes in geographic and production patterns. Trade volume increased by nearly six times between 1965 and 1977, and by 1977 was valued at US $18.3 billion per annum. Differences in export and import growth led to a substantial trade deficit accumulation for the developing countries. However, this is now decreasing.

The product composition of CMEA exports to developing countries is highly diversified; industrial products represent some two-thirds of these exports. CMEA imports are concentrated on primary products, of which mineral fuels represent the fastest growing and most important commodity group. A considerable increase in industrial purchases from developing countries can be noted. Despite changes in relative prices, the share of industrial products in CMEA imports from developing countries increased from 24 per cent to 27 per cent between 1965 and 1976. Division of labour is becoming increasingly important in the economic co-operation between the two country groups, particularly for the smaller industrialized CMEA countries.

Changing geographical patterns are connected with an increase in the relative market share of the USSR and Romania on the CMEA side, and Near-East and Latin America in the developing country group. Growth, trade balances and product specialization show distinctive area characteristics. The five largest developing partner countries supplied more than 70 per cent of the CMEA imports and took more than 50 per cent of their industrial imports from the developing countries in 1976. CMEA industrial purchases have a considerable trade-creation impact in a number of partner countries. They thus contribute to industrial growth and exports mostly in those developing countries which have difficulty in penetrating the markets of the developed market economies.

The relative importance of trade between the two country groups is shown by the fact that in the total turnover of the CMEA countries, the share of the developing countries increased from 13 per cent to 15 per cent between 1965 and 1977. However, such co-operation in the division of labour is not yet strong enough to guarantee a full utilization of the economic potential of trade between the two country groups.

An analysis of the main areas and types of industrial co-operation shows the existence of strong industry preferences and a considerable degree of specialization. The inter-group industrial trade as a whole can be characterized by an exchange of capital- and skilled-labour-intensive products. The transfer of CMEA technological, financial and human resources to developing countries is high in proportion to the trade volume. The planned channeling of resources to specific areas emphasizes the industrial orientation of CMEA co-operation. They take into consideration not only the transfer of material structures, but also the transfer know-how (management, skills, training, etc.), thus guaranteeing the efficient functioning of the transfers in the developing countries. There is, therefore, no problem of 'brain drain' involved.

The constraints of present co-operation (political and transport problems apart) are connected with inadequate co-ordinating mechanisms, insufficient production experience, inadequate marketing organization, and a considerable information gap.

The present level, structures and forms of co-operation fall short of their potential. The correction of this situation and the handling of emerging political and regional problems demand new conceptual approaches and mutually agreed actions.

Current and future trends in industrial co-operation between the CMEA and developing countries are affected by various factors. The global conditions of industrialization and industrial trade are being increasingly modified by: a slow-down of demand in developed market economies; lasting international marketing problems for an increasing number of industrial sub-branches and product categories; the relatively slow progress of redeployment processes; the rapid emergence of new exporters; and increasing oligopolistic tendencies in international markets of high-technology industries. Lasting changes are also noticeable in the relative importance of the various growth-endowment factors.

Structural changes in CMEA countries are closely linked to their recent (intensive stage) economic growth. Other factors are also important, e.g. changes in regional labour and raw-material endowment; increasing participation in the international division of labour; and the new development strategies. Structural change in developing countries coincides with the role of industry in the national economy, and the growth of industrial export-orientation. There is an increasing reliance on domestic raw materials and labour supply in industrial exports and, reciprocally, the developing countries are having greater influence in the international markets for specific industrial product groups.

The emerging structural changes in international economic development affect the role of the various country groups in the international division of labour. In the co-operation between developed market economies and developing countries, an increase in the international bargaining power of the developing countries is noticeable in the supply needs of particular industries. However, due to the excessive concentration of this supply on the products of the industries, which are slowing down, the developing countries have to face deteriorating price relativities as well as the protectionist measures of the developed market economies.

From the point of view of long term international stability, it is a prerequisite that the strengthening co-operation and greater efficiency of East-West trade should liberate additional resources for the acceleration of the growth of developing countries. It is also important that co-operation between developed market economies and the developing countries should not be directed by transnational enterprises' interests and become an obstacle to East-West trade, thereby also undermining the economic foundations of international détente.

The traditional specialization apart, areas of future industrial co-operation and redeployment activities would also involve the agrarian sector; background industries for infrastructural development; the transfer of public health and educational system; and research and development capacities. If successful, an average yearly growth rate in trade flows could reach 9 to 12 per cent during the eighties.

Further development of the economic relations between the two country groups requires a new comprehensive strategy of co-operation involving such issues as the choice of technologies, plant sizes, and market orientation. Other growth elements involve the transfer of labour-intensive technologies developed in the CMEA countries, growing CMEA contribution to the development of the national technical base (taking into account the specific factor endowments of the developing partner countries), a reassessment of the relative importance of small and medium-scale industrial plants, and assistance in developing adequate external State marketing organizations.

An intensification of the industrial division of labour requires additional measures to be undertaken at the enterprise level. Close inter-firm contacts and joint ventures serve well the common aims. Intra-industry co-operation can be developed first of all along the lines of CMEA industrial exports for further processing in the developing partner country and in inter-firm specialization in particular lines or ranges of production.

At the country level, medium and long term intergovernmental agreements should be further developed. Such agreements can promote a regulated, motivated, structural development of the mutual trade and transfer flows. They would also facilitate repayment of CMEA credits in industrial products. A number of positive experiences indicate that such agreements can be implemented successfully in bilateral frameworks of intergovernmental commissions.

Inter-firm co-operation between enterprises of CMEA and developing countries, involving better information flows and marketing co-operation, justifies a broader involvement by Chambers of Commerce and other representatives of business interest groups.

Also, an increasing number of tasks relating to the transfer of information: the establishment of contacts; marketing organization; and technical and financial assistance can be performed at the regional level of CMEA integration in the future. The organization of regional economic groupings in developing countries have also a considerable unexploited potential in exploring and creating trade opportunities.

Growing governmental intervention has also brought about a need for co-ordination of international government policies. Cultural change cannot be adequately assessed and national adjustment policies cannot be meaningfully shaped in the absence of a global framework which ensures consistency of objectives and requirements. Past experience and the global characteristics of many current issues indicate that any negotiations and co-operation on global issues requires the full participation of all areas and countries. Only an international co-operation for a longer term programme of action can guarantee a meaningful co-ordination of short term policies at international, regional or bilateral country level.

Any possible new constraints in industrial co-operation between the two country groups can be connected basically with exogenous factors from the point of view of the CMEA countries. Due to the increasing international interdependencies, an eventual weakening of détente or any conflict connected with the scarcity of some natural resources, unfavourable trends in East-West economic relations might adversely affect the overall prospects of industrial co-operation between the CMEA and developing countries.

The survival or extension of certain political and economic policy constraints in developing countries applying discriminatory practices against the CMEA countries or any substantial strengthening of the transnational corporations in the developing countries can also limit co-operation.

An important group of possible co-operation constraints is connected with the problems of supply security and the overall competitiveness of the industrial products originating from the developing countries. Inadequacies in quality, standards, marketing and financial facilities, might also limit the scope of industrial co-operation.

Finally, problems arising in bilateral relations can be eased substantially by strengthening the role of the State in the external economic sector of the developing country.