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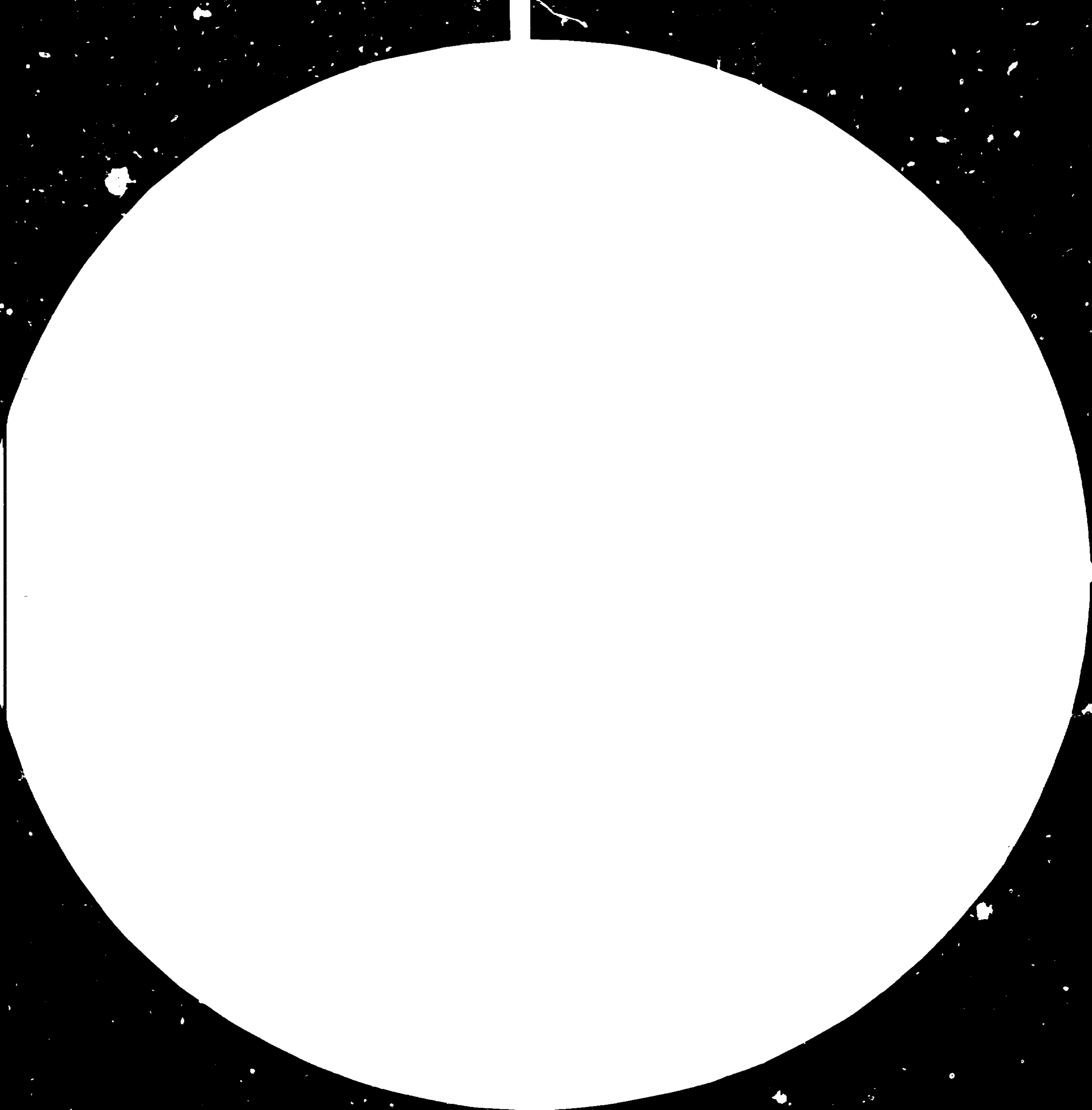

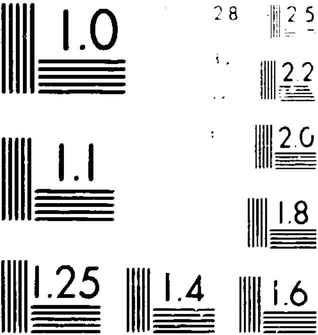
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PATTERNS AND PROSPECTS FOR EAST-SOUTH TRADE IN THE 1980s*

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INTRODUCTION

In order to assess the prospects for the development of the foreign trade of the European CMEA countries 1/ in the 1980s this document first very briefly summarizes the characteristics of the trade flows over the 1970s and then examines the available data on the planned development of exports and imports over 1981-85. This is followed by an outline of a number of features of the pattern of trade flows of the CMEA countries and an analysis of the trends, and expected changes in the trends, in these features.

With this background, the document then examines a scenario for CMEA trade as a whole for the 1980s. In the framework of this general scenario an East European scenario for East-South is presented and then a scenario for East-South trade within the framework of accelerated industrialization in the developing countries. The paper ends with conclusions on the challenges and potential for expanded East-South trade in the 1980s.

THE DEVELOPMENT OF CMEA FOREIGN TRADE

Over the period 1955-1970 East-South trade was the most dynamic component of world trade. The general pattern of development of CMEA exports to the developing countries over the 1970s was a very rapid growth, with the exports to the developed countries rising slightly more rapidly over 1971-1975 and less rapidly over 1976-1980. Exports to the other European CMEA countries on the other hand grew moderately more slowly over 1971-1975, and over one-third slower over 1976-1980, than non-CMEA trade.

For CMEA imports from the developing countries, the growth was initially very rapid, and then it slowed down considerable (but still also remained higher than for any country grouping over 1976-1980). Imports from the developed countries initially grew even faster, and then fell more quickly,

1/ Unless otherwise specified, throughout this document the terms 'European CMEA', 'CMEA', and the 'East' are synonymous, and refer to Poland, Czechoslovakia, the German Democratic Republic, Hungary, Romania, Bulgaria, and the Soviet Union.

than imports from the developing countries, while imports from the other socialist countries grew at the same rate as exports, which in turn was the lowest of all country groupings. Data in value terms for the period 1970 through 1980 are given on Table 1, but data on East-South trade flows in volume terms are not available.

Examining East-South trade flows at the one-digit SITC level, the broad picture of the commodity structure of East-South trade in manufactures, though subject to fluctuations, remained essentially unchanged over the period 1965-1979. There is, however, a very important difference in the nature of the trade flows in machinery and transport equipment (SITC 7) and in manufactured goods classified by material and miscellaneous manufactured goods (SITC 6 and 8, respectively): in the case of the former flows, the share in Eastern exports (to the South) is some 60 per cent and in Southern exports to the East just 1-5 per cent, whereas the two latter flows taken together make up under 30 per cent of Eastern exports to the South but 80-90 per cent of manufactured exports from the South to the East. Since SITC 6 and 8 include goods of a lower degree of processing and goods of a lower level of technology than SITC 7, this indicates that the commodity composition of exports of manufactures from the South to the East is 'less developed' as compared with total manufacturing exports of the South, whereas the commodity structure of manufactures exports from the East to the South is 'more developed' than that of total Eastern exports of manufactures. 2/

Examining the limited data for the foreign trade plans for 1981-1985 (on Table 2), it is clear that, with the exception of only the German Democratic Republic, the planned average annual growth rates in total foreign trade are markedly lower than the rates attained over the last half of the 1970s or in 1980. This is particularly notable in the case of Czechoslovakia - a country which some suggest 3/ is actually in a particularly favourable position for expanding her exports to the developing countries - and the Soviet Union, where the planned growth rates are less than half those attained over the period 1976-1980. This in turn means that East-South trade flows will remain a fraction of West-South trade flows.

2/ For a detailed discussion of these points see Eva Palócz-Németh, "Der Handel in Industriewaren zwischen Ost, West und Süd und seine Auswirkung". Wiener Institut für Internationale Wirtschaftsvergleiche, Forschungsbericht No. 67, 1981.

3/ ID/WG.357/1.

Table 1

Foreign trade of the socialist countries of Eastern Europe, 1970-1980

Value in millions of dollars (f.o.b.)

EXPORTS

Destination	Value						Average annual growth rate (%)		Percentage rate of change over previous year			
	1970	1975	1977	1978	1979	1980	1970-1975	1975-1980	1977	1978	1979	1980
World	30 895	75 730	99 786	112 415	135 300	155 615	19.7	15.5	17.7	12.7	20.4	15.0
of which:												
Developed market-economy countries	6 774	19 387	24 848	27 362	38 095	44 854	23.5	18.3	9.1	10.1	39.2	17.7
Developing countries	4 754	12 404	17 015	20 171	23 180	30 069	21.0	19.4	27.3	18.5	14.9	29.7
Socialist countries of Eastern Europe	18 363	42 075	52 805	61 887	70 225	76 393	18.1	12.6	13.8	17.2	13.4	8.8
IMPORTS												
Origin												
World	30 177	86 632	100 266	117 364	133 502	150 805	23.3	11.8	9.2	17.0	13.8	13.0
of which:												
Developed market-economy countries	7 800	30 580	32 502	36 763	44 640	49 786	31.2	10.2	-1.6	13.1	21.4	11.5
Developing countries	3 493	11 372	13 328	15 109	17 195	23 918	26.0	16.1	13.0	13.4	13.8	39.1
Socialist countries of Eastern Europe	18 393	42 426	52 781	63 422	69 395	77 098	18.2	12.6	15.2	20.1	9.4	11.1
TURNOVER												
Destination/Origin												
World	61 072	161 362	200 052	229 780	268 802	306 420	21.4	13.6	13.3	14.9	17.0	14.0
of which:												
Developed market-economy countries	14 574	49 967	57 350	64 125	82 735	94 640	28.0	13.7	2.8	11.8	29.0	14.4
Developing countries	8 247	23 776	30 343	35 280	40 375	53 987	23.9	17.9	20.6	16.3	14.4	33.7
Socialist countries of Eastern Europe	36 756	84 501	105 586	125 310	139 620	153 491	18.1	12.6	14.5	18.6	11.4	9.9

Source: TD/B/859/Add.1. (from national statistics of the socialist countries of Eastern Europe).

Table 2

Foreign trade plans and performance in the socialist countries of Eastern Europe
(Percentage increase over preceeding year)

	1976	1977	1978	1979	1980		Planned annual average 1981-1985
	Actual				Plan	Actual	
Bulgaria							
Exports	14.5	15.8	10.4	15.4	7.5a/	16.3	7.0a/
Imports	3.8	11.5	12.2	7.4		11.7	
Czechoslovakia							
Exports	11.8	13.4	14.6	10.3	6.6a/	19.5	4.6b/
Imports	10.4	11.8	7.7	11.3		7.6	
German Democratic Republic							
Exports	14.0	7.0	9.9	13.0	12.0a/	10.3	11.2c/
Imports			1.8	12.0			
Hungary							
Exports	8.0	16.5	0.9	17.0	5.5a/	9.3	6.6
Imports	4.0	16.2	12.6	3.0		6.5	3.4
Poland							
Exports	7.1	11.4	9.8	12.2	9.1a/	7.6	..
Imports	10.4	5.5	4.7	6.3		10.9	
Romania							
Exports	14.9	14.6	5.7	18.0	14.8a/	25.8	8.5-9.5a/
Imports	14.1	15.1	14.6	20.1		20.9	
USSR							
Exports	16.6	18.7	7.2	18.9	4.7a/	18.4	7.0a/
Imports	7.8	4.7	14.8	9.6		18.8	

a/ Total Trade Turnover
b/ Trade with CMEA member countries
c/ Exports only

Source: TD/B859 (from national statistics of the socialist countries of Eastern Europe.

It is also important to note, however, that foreign trade is one element in the planned economy that is difficult to plan in value terms. The experience of the 1976-1980 period in the CMEA countries was that, in general, exports grew more slowly than planned and imports more rapidly than planned. This can in turn perhaps be tied, on the export side, both to economic difficulties in the West and to increased competition on Western markets (particularly from NICs and from the countries of Southern Europe) and, on the import side, to the ready availability of external credit. The former side of this relationship at least may well repeat itself over the first half of the 1980s, suggesting the possibility of a lower than planned growth of exports. Import growth cannot, however, be expected to be stimulated by an easy availability of credit, but rather constrained by the debt servicing burden and unfavorable developments in the terms of trade.

THE ROLE OF FOREIGN TRADE IN THE CMEA

An assessment of the prospects for the trade of the European CMEA countries with the developed market economies and with the developing countries must start from a number of considerations regarding the nature of foreign trade in the CMEA. The first is the general nature of the role of foreign trade in a planned economy of the type characteristic for the European CMEA countries. In this case foreign trade is primarily seen as an equilibrating mechanism for meeting the excess demand generated when the economic plans prescribe input levels for production of intermediate goods or products for final demand which exceed the levels available in the domestic economy.

The second, and allied, guiding principle is that the Eastern economies should not become too dependent on imports from outside the CMEA. This primacy on security of supply leads the planners to risk avoidance patterns of behaviour, which in turn constrain the level of participation in international trade. The third role for foreign trade comes into play when levels of production that have been planned are not attained; then foreign trade can play a lubricating role and fill the gaps between the planned and actual levels of production.

The fourth consideration is the fact that the planned economies of the CMEA countries, and particularly their international financial systems, are not fully integrated into the international monetary system, and in particular the fact that only the Hungarian forint approximates a convertible currency. Finally, foreign trade - and here one is particularly referring to trade with the developed market economies - is seen as a means for injecting technological progress into the domestic economic system and for boosting the weaker sectors of the economy generally.

On the basis of an examination of the historical data on trade flows between the CMEA countries and other countries, and in light of the nature of the foreign trade system characterizing these countries, it is possible to hypothesize that for domestically produced goods that are potential exports there was a rough hierarchy of markets that, while not holding for all goods at all periods, nevertheless appears as a leitmotiv in the marketing of CMEA export goods. First, goods which were potential exports to the West were exported to earn hard currency (on Western markets, in intra-CMEA trade, or on the markets of the South). Of course there was a constraint on these exports that an absolute minimum level of domestic demand (related to the minimum needed for subsistence and to insuring minimal levels of performance of the labour force) had to be met. But this constraint was very lax and set low enough that it was generally not operative.

For goods which were not objects of potential domestic private consumption (such as industrial machinery and equipment), as much was first sold for hard currency as possible and, secondly, used to acquire goods which potential sellers were not willing to trade for less marketable goods (such as incremental increases in oil and gas deliveries from the Soviet Union to the smaller East European countries). The residual of such goods was then allocated among the home market, intra-CMEA trade, and trade with the South according to existing long-term plans and trade agreements.

For agricultural products and consumer goods, the larger share of the residual was devoted to reducing the excess demand on the home market. Particularly when it included agricultural goods, a small share of this residual was often retained for export to other CMEA countries (including non-European CMEA countries). Though small, this residual was not unimportant: the Soviet Union, for example, often maintained the value of this small residual even when it meant importing the agricultural goods required to do so.

As a general rule, then, exports to the South came fifth in the hierarchy, after satisfying the minimum needs of the population, providing exports to the West, meeting the above-subsistence needs of the domestic population, and supplying other CMEA countries. There were, however, two major exceptions to this pattern, and these came into existence whenever the South either (a) paid in hard currency or (b) supplied energy or other raw materials in payment for imports from the East. In these cases the priority of trade with the South rose markedly.

Given these features of the foreign trade system of the CMEA countries, the resulting implications for the pattern of foreign trade that can be expected in the future can be drawn. First, because of a common economic - and particularly international financial - system that is differentiated from the system under which the vast majority of international trade and financial transactions take place, the share of intra-CMEA trade in total trade flows is very high. This share has, however, been falling, and can be expected to continue to show a decreasing trend over the 1980s. 4/

Secondly, these intra-CMEA flows are planned over the medium-term (and hence are a market that is only open at certain times for certain products) and increasing importance is being given to long-term plans for intra-CMEA specialization in production and trade over the 1980s, particularly in the framework of the long-term goal programmes. This in turn will further reduce the flexibility in trade between the CMEA and other groups of countries.

Thirdly, the equilibrating nature of the foreign trade system leads to the concentration on raw materials and fuels in trade with developing countries (and the consequent reduction in the share of manufactured imports) - a feature which planners in the CMEA countries have indicated will be retained over the medium-term.5/ This is the reason why, when examining data on the world flow of manufactures, the only case where one does not notice a substantial flow of manufactures in all directions and between all country

4/ ED.AC(XVII)/AC.1/R.2.
5/ Report on the Research Seminar on Structural Changes in Industry in European CMEA countries. (forthcoming)

groupings besides the very low level of manufactures exports from OPEC is that of manufactures exports from the South to the East. (See Tables 3-5 and the accompanying discussion below.)

Fourthly, the increasing importance being given in the 1981-1985 plans to capital-intensive (as opposed to labour-intensive) methods of production means that the high priority given to the import of high technology imports from the West will have to be continued - though, of course, under an appreciably tighter financial constraint. As a recent UNIDO study pointed out 6/, this feature of CMEA-trade will also be retained, but at a reduced level, even under the pressure of very heavy external debt as in Poland.

Because production in many areas in several CMEA countries is becoming increasingly capital-intensive, the East would gain appreciably from increased imports of highly labour-intensive products. For the smaller East European countries the same would hold for highly raw material-intensive products. But this greater degree of participation in international trade is inhibited by, among other factors, the reluctance to incur the greater degree of potential risk the CMEA countries associate with higher import dependance.

Fiftly, CMEA trade - like CMEA foreign aid - is very highly concentrated among developing countries. Thus, trade with Cuba dominates European CMEA trade with Latin America, trade with Vietnam dominates trade with South-East Asia, and trade with Yugoslavia dominates trade with Mediterranean countries. When one excludes trade with the (non-European) developing countries which are members of the CMEA (e.g., Vietnam), as well as with Yugoslavia, trade with the other developing countries is even more concentrated. E.g., excluding Cuba, Brazil and Argentina accounted for 83 per cent of Soviet-Latin American trade turnover in 1979.

In trade in manufactures the pattern is even more concentrated: Yugoslavia accounted for 48 per cent of all exports of manufactured goods from the South to the East in the 1979. Trading with large developing countries (such as Brazil or India) is clearly a preference of the CMEA, and can be associated with the security of supply argument above (along with, in India's case at least, political considerations). The evidence from a number of UNIDO studies cited throughout this document is that there is no reason to expect this pattern to change over the early 1980s.

6/ ID/WG.357/2.

A final feature relating to trade with the South is the role of historical tradition in determining the pattern of trade flows; and, specifically, the lack of a strong tradition on the part of the CMEA and the developing countries. At the recent UNIDO Research Seminar it was also suggested that psychological factors on both sides contributed to keeping these trade flows at a low level, a state of affairs engendered by the lack of a strong historical tradition of contact.

PROSPECTS FOR EAST-SOUTH TRADE

In the exports of the developing countries to the CMEA, agricultural products dominate, followed by fuels and then by crude materials, with the share of manufactures being small and actually decreasing (from 9.6 per cent of total CMEA manufactured exports of the South in 1970 to 4.8 per cent in 1979).7/ In exports of the South excluding Yugoslavia and the non-European CMEA, the percentage of manufactured exports going to the East actually fell to as little as 1.3 per cent at the end of the 1970s, though for the non-European CMEA it was as high as 17.5 - and for Yugoslavia 43.8 per cent.

Looked at from another perspective, 61.3 per cent of total CMEA imports in 1979 were manufactured imports, whereas only 8.4 per cent of CMEA imports from the developing countries were manufactures. For an important trading partner like Brazil, therefore, of $975 million total exports to the European CMEA in 1979 only $66 million were manufactured goods. The data suggest that the most difficult challenge to East-South trade relations in the 1980s will be the attempt of the developing countries to increase the share of these exports to the CMEA countries. (See Table 3.)

A constant feature of East-South trade is that manufactured goods dominate the imports of the developing countries from the CMEA (as they do the imports of the developing countries from the developed market economies). As a percentage of the total manufactured exports of the East the distribution of these flows remained roughly constant over the 1970s, with one-seventh accounted for by exports to Yugoslavia and somewhat under one-fifth by exports

7/ For comparsion, the share of fuel exports in the total exports of the South to the East rose from 2.0 per cent in 1970 to 16.6 per cent in 1979, while the share of crude materials (excluding fuels, oils and fats) fell from 27.4 to 14.2 per cent.

Table 3 MANUFACTURED EXPORTS FROM THE SOUTH TO THE EAST 1/ (millions of US$)

YEAR	Manufactured Exports from the South to the European CMEA		of which: Manufactured Exports from the centrally planned countries of Asia to the European CMEA		Manufactured Exports from Yugoslavia to the European CMEA		Manufactured Exports from other developing countries to the European CMEA	
	Value 2/	% of Total Manuf. Exports of the South	Value	% of Total Manuf. Exports from the South to the European CMEA 3/	Value	% of Total Manuf. Exports from the South to the European CMEA	Value	% of Total Manuf. Exports from the South to the European CMEA
	I.		II.		III.		IV.	
1970	1113	9.6	266	23.9	392	35.2	455	40.9
1971	1292	9.6	306	23.7	502	38.9	484	37.5
1972	1533	8.7	349	22.8	558	36.4	626	40.8
1973	1862	6.9	444	23.9	726	39.0	692	37.2
1974	2472	6.8	524	21.2	1079	43.7	869	35.2
1975	2817	7.1	606	21.5	1108	39.3	1103	39.2
1976	3347	6.8	704	21.0	1640	49.0	1003	30.0
1977	3458	6.0	818	23.7	1537	44.5	1101	31.8
1978	4171	5.6	1079	25.9	1935	6.4	1157	27.7
1979	4571	4.8	1262	27.6	2199	48.11	1110	24.3

Notes:

1. SITC 5 + 6 + 7 + 8 - 68
2. I = II + III + IV
3. Centrally planned countries of Asia include China, Mongolia, the People's Republic of Korea and Vietnam.

Sources: for Yugoslavia: UN Commodity Trade Statistics, 1970-1979; for other country groupings: UN Monthly Bulletin of Statistics, August 1976; June 1978 and May 1981.

Table 4 MANUFACTURED EXPORTS FROM THE EAST TO THE SOUTH (millions of US$)

YEAR	Manufactured Exports from the European CMEA to the South		of which: Manufactured Exports from the European CMEA to centrally planned countries of Asia		Manufactured Exports from the European CMEA to Yugoslavia		Manufactured Exports from the European CMEA to other developing countries	
	Value	% of Total Manuf. Exports of the European CMEA	Value	% of Total Manuf. Exports from the European CMEA to the South	Value	% of Total Manuf. Exports from European CMEA to the South	Value	% of Total Manuf. Exports from the European CMEA to the South
	I.		II.		III.		IV.	
1970	3435	19.0	710	20.7	403	11.7	2322	67.6
1971	3662	18.6	772	21.1	536	14.6	2354	64.3
1972	4070	16.8	933	22.9	504	12.4	2633	64.7
1973	4826	15.8	1052	21.8	608	12.6	3166	65.6
1974	6376	17.8	1203	18.9	848	13.3	4325	67.8
1975	7871	18.0	1438	18.3	1108	14.1	5325	67.7
1976	8609	18.4	1645	19.1	1129	13.1	5835	67.8
1977	9595	17.9	1662	17.3	1360	14.2	6573	68.5
1978	11250	18.0	2085	18.5	1622	14.4	7543	67.0
1979	13828	19.3	2603	18.9	1993	14.1	9272	67.1

Notes and Sources: See Table 3.

to the centrally planned economies of Asia. (See Table 4.) The relative constancy of these flows stands in marked contrast to the changing composition of manufactured exports from the South to the East just mentioned above, suggesting that the East's objective of long-term stability has been attained much more in manufactured exports than in manufactured imports.

The problem is all the more complex - and all the more important from the point of view of efforts at international industrial restructuring - because many of the potential exports of the developing countries to the CMEA (such as clothing, leather goods, carpets, metal goods, wood products, simple electronics, some steels) are also products where the CMEA countries are direct competitors with the developing countries. But because of the tendency to increasing restrictions on the import of such goods by the developing countries into the developed market economies, the CMEA market is crucial for the expansion of exports of these products.

The Country-specific Outlook

Examining the trade of the individual East European countries, the most notable feature in the share of the developing country exports to and imports from the CMEA countries is the marked growth in Romania's imports from the developing countries: from a share of 8.6 per cent in Romania's total imports in 1970 (and a value of $169 million), imports from the developing countries rose to a share of 32.6 per cent in 1980 (and a value of $4298 million). (See Table 5.) This reflects, in part, the rise in world oil prices for her imported oil and, even though she is attempting to increase imports of (lower priced) Soviet oil, this trend can be expected to continue. Romania financed this increase in the value of imports from the developing countries partly by reducing imports from the West, but also by sharply increasing her borrowings in the West. The dampening effect of the resulting debt repayment will clearly continue to hold down imports of manufactured goods from the developing countries into Romania over the middle term.

Up to 1979 Bulgaria and Czechoslovakia had been successful in holding the growth rate of imports from the developing countries below that of total imports, as part of an attempt to maximize their trade surplus in East-South trade to help finance deficits in East-West trade. In both cases this trade policy of maximizing trade surpluses in trade with developing countries is also matched by policies of minimizing trade deficits in trade with developed countries by reducing (or keeping constant) the growth rates of imports from developed countries.

The clear policy of Bulgaria of attempting to reduce the growth in her debt - which on a per capita basis is the highest in the CMEA - and of Czechoslovakia of refusing to allow her indebtedness to grow excessively, is one that can be expected to be continued in the 1980s, and will therefore rule out sharp expansions in the share of manufactured imports from the developing countries. On the export side, exports of technologically intensive industrial machinery and equipment to the developing countries are planned to be particularly important in Czechoslovakia .8/ The Czech planners argue that such prospects are strengthened by the fact that the country already has established very strong trade ties in just these kind of products with developing countries such as Iran, Iraq, Syria, India, Egypt and Brazil.

For Hungary and the German Democratic Republic the value of annual trade flows with the developing countries was roughly in balance over the 1970s, with only small surpluses for the CMEA countries in most years. The trend data for the GDR do not give grounds for suggesting a major increase in her level of trade - the share of trade with the developing countries is the lowest of all CMEA countries - while the data suggest a much stronger increasing trend in Hungarian imports from developing countries.

Poland is the exception among East European countries in that imports from the developing countries have in recent years exceeded exports to these countries. Due to the severe balance of payments problems and the net foreign debt to the West of over $22 billion, Poland's new stabilization plan aims at limiting imports primarily to crucial raw materials, spare parts, equipment, and agricultural products, abandoning high-import content investment projects, and reselling machinery and equipment ordered for such projects.9/ This in turn suggests that prospects for non-critical manufactured imports from the developing countries over the 1980s will be dim.

8/ ID/WG.357/1.

9/ ID/WG.357/2.

Table 5

Geographical distribution of foreign trade of the socialist countries of Eastern Europe, 1970-1980

Value in millions of dollars (f.o.b.)

Country	Exports					Imports				
	1970	1975	1978	1979	1980	1970	1975	1978	1979	1980
BULGARIA										
Total trade	2 004	4 682	7 557	8 425	9 800	1 831	5 398	7 728	8 091	9 041
of which with:										
Developing countries	187	649	1 067	1 103	1 561	138	362	439	493	568
per cent of total	9.3	13.9	14.1	13.1	15.9	7.5	6.7	5.7	6.1	6.3
Developed market-economy countries	285	474	781	1 337	1 655	350	1 289	1 176	1 258	1 558
per cent of total	14.2	10.1	10.3	15.9	16.9	19.1	23.9	15.2	15.5	17.2
Socialist countries	1 532	3 559	5 709	5 985	6 584	1 343	3 747	6 113	6 340	6 914
per cent of total	76.5	76.0	75.6	71.0	67.2	73.4	69.4	79.1	78.4	76.5
CZECHOSLOVAKIA										
Total trade	3 792	7 814	10 655	13 198	15 766	3 695	8 495	11 403	14 252	15 340
of which with:										
Developing countries	510	1 009	1 249	1 531	2 324	378	819	893	1 143	1 387
per cent of total	13.4	12.9	11.7	11.6	14.7	10.2	9.6	7.8	8.0	9.0
Developed market-economy countries	783	1 563	1 986	2 696	3 600	916	2 098	2 674	3 483	3 809
per cent of total	20.6	20.0	18.6	20.4	22.8	24.8	24.7	23.5	24.4	24.8
Socialist countries	2 499	5 242	7 420	8 971	9 852	2 401	5 578	7 836	9 626	10 143
per cent of total	66.0	67.1	69.7	68.0	62.5	65.0	65.7	68.7	67.6	66.1
GERMAN DEMOCRATIC REPUBLIC										
Total trade	4 581	10 088	13 267	15 063	...	4 847	11 290	14 572	16 214	...
of which with:										
Developing countries	340	770	1 194	1 310	...	291	789	1 137	1 103	...
per cent of total	[illegible]	7.6	9.0	8.7		6.0	7.0	7.8	6.8	
Developed market-economy countries	1 003	[illegible]	2 614	3 134	...	1 295	3 281	3 715	4 994	...
per cent of total	21.9	22.4	19.7	20.8		26.7	29.0	25.5	30.8	
Socialist countries	3 238	7 055	9 459	10 619	...	3 261	7 220	9 720	10 117	
per cent of total	70.7	70.0	71.3	70.5		67.3	64.0	66.7	62.4	

Table 5 (continued)

Country	Exports					Imports				
	1970	1975	1978	1979	1980	1970	1975	1978	1979	1980
HUNGARY a/										
Total trade	2 317	4 189	6 345	7 939	8 677	2 505	5 573	7 902	8 674	9 235
of which with:										
Developing countries	208	571	886	1 041	1 154	246	616	846	938	1 108
per cent of total	9.0	13.8	14.0	13.1	13.3	9.8	11.0	10.7	10.8	12.0
Developed market-economy countries	627	1 368	1 928	2 642	3 046	673	1 917	3 042	3 322	3 712
per cent of total	27.0	32.7	30.4	33.3	35.1	26.9	34.4	38.5	38.3	40.2
Socialist countries	1 482	2 244	3 531	4 256	4 477	1 586	3 040	4 014	4 413	4 414
per cent of total	64.0	53.5	55.6	53.6	51.6	63.3	54.6	50.8	50.9	47.8
POLAND										
Total trade	3 548	10 289	14 114	16 249	16 800	3 607	12 545	16 089	17 584	18 870
of which with:										
Developing countries	326	1 083	1 440	1 665	2 062	260	802	1 207	1 847	2 226
per cent of total	9.2	10.5	10.2	10.2	12.3	7.2	6.4	7.5	10.5	11.8
Developed market-economy countries	1 024	3 278	4 418	5 070	5 723	938	6 199	6 452	6 541	6 472
per cent of total	28.9	31.9	31.3	31.2	34.0	26.0	49.4	40.1	37.2	34.3
Socialist countries	2 198	5 928	8 256	9 514	9 015	2 409	5 544	8 430	9 196	10 172
per cent of total	61.9	57.6	58.5	58.6	53.7	66.8	44.2	52.4	52.3	53.9
ROMANIA										
Total trade	1 851	5 341	8 077	9 724	12 230	1 960	5 342	8 910	10 916	13 200
of which with:										
Developing countries	235	1 115	1 583	1 891	2 685	169	820	1 693	2 041	4 298
per cent of total	12.7	20.9	19.6	19.5	22.0	8.6	15.4	19.0	18.7	32.6
Developed market-economy countries	596	1 873	2 722	3 700	4 520	776	2 260	3 475	4 694	4 148
per cent of total	32.2	35.0	33.7	38.1	37.0	39.6	42.3	39.0	43.0	31.4
Socialist countries	1 020	2 304	3 772	4 133	5 025	1 015	2 210	3 742	4 181	4 754
per cent of total	55.1	43.1	46.7	42.5	41.0	51.8	41.3	42.0	38.3	36.0

Table 5 (continued)

Country	Exports					Imports				
	1970	1975	1978	1979	1980	1970	1975	1978	1979	1980
USSR										
Total trade	12 800	33 328	52 400	64 701	76 630	11 732	36 989	50 760	57 771	68 619
<u>of which with</u>:										
Developing countries	2 948	7 201	12 752	14 648	16 818	2 011	7 164	8 794	9 631	13 481
per cent of total	23.0	21.6	24.3	22.6	22.0	17.1	19.4	17.5	16.7	19.7
Developed market-economy countries	2 456	8 568	12 913	19 515	25 045	2 852	13 536	16 229	20 350	24 437
per cent of total	19.2	25.7	24.7	30.2	32.7	24.3	36.6	32.0	35.2	35.6
Socialist countries	7 396	17 559	26 735	30 538	34 767	6 868	16 289	25 637	27 790	30 701
per cent of total	57.8	52.7	51.0	47.2	45.3	58.6	44.0	50.5	48.1	44.7

<u>a</u>/ Imports c.i.f.

Sources: TD/B/854/Add.1 (from national statistics of the socialist countries of Eastern Europe).

Table 6

Commodity structure of trade of the USSR with selected developing countries by SITC sections, in 1977, 1978 and 1979

(millions of dollars, f.o.b.)

	EXPORTS						IMPORTS					
	1977		1978		1979		1977		1978		1979	
	Value	Per cent of total	Value	Per cent of total	Value	Per cent of total	Value	Per cent of total	Value	Per cent of total	Value	Per cent of total
TRADE WITH WORLD	44 580		52 400		64 701		40 344		50 760		57 771	
of which:												
TOTAL Developing countries	10 715		12 752		14 648		7 640		8 894		9 632	
By SITC Sections:												
(0) Food and live animals	369	5.4	317	4.1	460	4.4	3 415	45.1	3 913	49.1	4 512	47.0
(1) Beverages and tobacco	0	0.0	0	0.0	0	0.0	144	1.9	143	1.8	125	1.3
(2) Crude materials, inedible, except fuels	527	7.7	448	5.8	511	4.9	900	11.9	693	8.7	845	8.8
(3) Mineral fuels, lubricants and related materials	1 683	24.6	1 768	22.9	3 006	28.8	568	7.5	717	9.0	1 008	10.5
(4) Animal and vegetable oils and fats	48	0.7	46	0.6	73	0.7	76	1.0	96	1.2	192	2.0
(5) Chemicals	178	2.6	177	2.3	198	1.9	136	1.8	151	1.9	211	2.2
(6) Manufactured goods classified chiefly by material	411	6.0	455	5.9	501	4.8	560	7.4	558	7.0	691	7.2
(7) Machinery and transport equipment	2 252	32.9	2 641	34.2	3 330	31.9	598	7.9	733	9.2	745	7.8
(8) Misc. manufactured articles	62	0.9	77	1.0	104	1.0	393	5.2	374	4.7	394	4.1
(9) Commodities and transactions not classified according to kind a/	1 314	1 2	1 792	23.2	2 254	21.6	779	10.3	590	7.4	874	9.1
TOTAL ABOVE b/	6 845	100.0	7 722	100.0	10 439	100.0	7 567	100.0	7 969	100.0	9 600	100.0

a/ Including not allocated.

b/ These data cover trade only with those developing countries for which the Foreign Trade Yearbook of the USSR provides a commodity breakdown

Sources: TD/B/859/ADD.1. (from national statistics of the USSR).

United Nations. Draft Conversion Key between the United Nations Standard International Trade Classification, Revised, and the Standard Foreign Trade Classification of the Council for Mutual Economic Assistance

The trend in the share of the developing countries in Soviet exports and imports for the 1980s that comes from data for the last years of the 1970s is an uneven, but decreasing one, while the trend in the share of the developing countries in total Soviet imports is a steady and stronger decrease. Indications of the possible commodity structure of trade can be gained by noting that the most important growth point in Soviet imports from the developing countries is in the value of mineral fuels, while the historical data suggest a decrease in the share of, most importantly, non-fuel inedible raw materials, then manufactures, and then agricultural products. In absolute terms, the value of Soviet imports of both agricultural goods and manufactures from the developing countries rose over the latter 1970s, but in volume terms fell, whereas the import of raw materials minus fuels fell in both value and volume terms.10/ (See Tables 5 and 6.)

Soviet submissions to the Economic Commission for Europe suggest that the export pattern of the USSR is expected to stabilize over the first half of the 1980s, with a decline in the share of fuel and electric power in Soviet exports over the last half of the 1980s and into the 1990s - the decrease of oil and oil products in Soviet exports being planned to be offset by increased deliveries of gas and electric power. On the import side, it is planned that the trade pattern should remain steady, with the only notable fluctuations being in machinery and transport equipment (particularly for the construction of natural gas pipelines).11/

The General Outlook

With the exception of Poland, the East European CMEA countries are generally resource poor and, with the exception of Romania, these countries have traditionally seen the Soviet Union as their most important supplier of oil and of raw materials. From the end of the 1970s it became clear that the supplies of oil from the Soviet Union would not be sufficient to completely

10/ Data on the commodity breakdown of Soviet trade must, however, be treated with caution, since official data is not published on the commodity composition of some one-third of Soviet foreign trade (predominantly commercially traded strategic items). Since much of the export side of this latter trade flow is widely assumed to represent trade in armaments, and since exports of armaments are increasing, their inclusion would increase both the share of manufactures in Soviet (and East European) exports to the developing countries as well as the slope of the trend line for the 1980s.

11/ EC.AD (XVII)/AC.1/R.2.

meet the growing demand of the East European countries for oil - a view that is underlined by the fact that Soviet oil production has fallen from 5.9 vH in 1976 to 5.0 vH in 1977 to 4.7 vH in 1978 and only some 4 vH in 1979.12/ This new realization will be a crucial factor in shaping the relationship of these countries with (particularly the oil-exporting) developing countries over the 1980s.

The reasons that led to this situation are the fact that the price the East Europeans pay for their oil through the working of the five year moving average formula has progressively become closer to the world market price, the nature of the quantitative restrictions imposed by the Soviet Union on oil exports, and the requirement imposed on the East Europeans to increasingly participate in the investment cost required in the Soviet Union for the production of oil from new, less favourably located, oil fields. Oil deliveries from the Soviet Union to the small East European countries over 1981-85 were planned to rise by some 30 million tons over the level delivered over 1976-80 - an increase of some 8 per cent. Later these planned deliveries were forecast to equal the average level for 1976-1980, which represented a very serious problem in light of the difficulties experienced in attempts at reducing energy consumption over the latter 1970s in Eastern Europe as well as growing levels of demand for energy inputs generated by the high annual rates of growth of the CMEA economies projected for the 1980s.

Combined with this is the fact that incremental increases in oil deliveries to the East European CMEA countries from the Soviet Union must increasingly be paid for in hard goods (i.e., those that could be sold in the West). In addition, it has been announced that the projected oil deliveries for 1981-1985 from the Soviet Union will be reduced by 10 per cent below the 1976-1980 level.13/ Since realistic possibilities for major increases in extraction at acceptable cost levels do not exist in the East European countries, these countries can therefore be seen to have little choice with regard to the structure of their imports from the South and the nature of their trade policy with the developing countries. The result of this new

12/ Ekonomicheskaya Gazeta, No.4, 1979, p.1.

13/ More recent reports suggest that, in the case of the German Democratic Republic, the cuts will be at least 12 per cent. (Business Eastern Europe, February 12, 1982, p.52.)

realization is that countries of Eastern Europe are concluding an increasing number of delivery countries with the countries of OPEC for oil deliveries in the 1980s - thereby of course reducing further the possibilities for importing anything other than goods that for geological or economic reasons cannot be domestically produced.

There are nevertheless a number of influences that will be working to reduce the East's energy imports, and hence potentially lead to changes in the pattern of the East's imports from the South. The first is the cost (in terms both of Transferable Roubles and foreign exchange) that the smaller East European countries are being required to pay for their energy imports,14/ and the second is the new emphasis being placed on the old arguments for reducing the costs of material and energy inputs in speeches by prominent planners from the CMEA countries. Both of these factors could contribute to a degree of energy conservation in the East over the current decade that would be appreciably more successful than the experience of the past.

Further, the East is embarking on a vigorous programme of nuclear energy development. The programme is behind its planned schedule, but is nevertheless still ambitious and, moreover, it is not facing the types of delays that environmental considerations would put in its way in the West. Supplemental to this is the set of programmes for expanding hydroelectric capacity, especially in Yugoslavia, Bulgaria and Romania. These programmes are less ambitious than in the nuclear sector, but also face less difficulties in their attainment. Finally, there is the question of the degree of plan fulfillment. As is known, the new plans set targets that are markedly below both the plans and the actual results of the recent past. But it is still not clear that these plans will all be fulfilled; and to the extent that they are underfulfilled, this is a positive factor from the point of view of increased energy demand.

The prospects for energy demand in the CMEA countries will therefore depend on the interaction of a complex set of factors and will have to be set against the expected actual deliveries received from the Soviet Union. It is

14/ Even with stagnating world oil prices the intra-CMEA price for imports - which is calculated as a moving average of the oil price on world markets for the previous five years - is still rising as the effect of the second oil shock is fully incorporated in the price.

this resultant new supply and demand picture that will determine the nature of the demand of the East for energy imports, which will in turn be a critical factor in determining the degree to which the demand of the East for imports from the South will be able to deviate from its historical pattern.

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A very fundamental question for the 1980s will be how these East-South trade flows will be affected by the new pattern of development of East-West trade. In 1981 the value of these trade flows, when calculated on a dollar basis, fell for the first time for almost two decades: the exports of the East to the West were some 5 1/2 per cent below the 1980 level and the imports of the East from the West some 10 per cent below the 1980 level.[15] Conventional wisdom suggests that the most important explanation for this development is the economic downturn in the economies of the West. But the effect of this downturn found such a loud resonance in East-West trade flows only because of the fact that the Eastern countries were marginal suppliers to the West, and as such were the first to be affected by a fall in the level of demand in Western markets. Analogously, the East tends not to be in the right markets to fully benefit from any upturn in the Western economies.

The severity of the situation arises from the fact that this loss in revenue from export sales to the West was combined with a sharp cutback in the volume of credit that was available for imports from the West. Moreover, in the face of this reduced volume of funds for imports, the demands on export earnings to service the foreign debt rose appreciably due to the rise in international interest rates. In contrast to the earlier situation where the Soviet Union's potential hard good exports isolated it from such pressures, the size of the food bill for meat, sugar and, most importantly, grain, the cost of direct (hard currency) aid to Poland, and the fall in the world price for exports such as gold and diamonds led to a serious - albeit since remedied - depletion of Soviet foreign exchange resources (by over 75% between 1979 and 1981).

The combination of these factors is [illegible] put markedly greater pressure on the Eastern economies to export to the South (and to demand hard currency payment for these sales), while further strengthening the need to keep non-essential imports from the South at a minimum. And, in turn, to reduce

[15] Jan Stankovsky, "Ost-West-Handel 1981 und Aussichten für 1982", Monatsbericht des Österreichischen Institut für Wirtschaftsforschung (forthcoming).

further the possibilities for altering the structure of these imports so as to increase the share of manufactured goods. Thus, the current pattern of East-West trade and the extremely large levels of foreign debt (relative to hard currency exports) incurred to finance previous East-West trade flows reduces the potential of the East to co-operate with the South.

A factor that could be crucial in determining the futu tern and level of East-South trade and the relative bargaining strength the two sides would be a decision by the East that, on the basis of nsiderations of international policy on both trade and finance flows as well as on producer and consumer cartels, their long-term interest is more closely identified with the North than with the South. 16/ If agreement were reached in these areas within the framework of East-West trade this would in turn serve to reduce the bargaining position of the South in East-South trade and in international trade negotiations in general.

In all such East-South trade deals the fact that the smaller CMEA countries have in recent years suffered sharp deterioration in their terms of trade means that they will be forced to drive harder bargains in dealing with the South, while the stipulated objective of reducing raw material intensity and increasing the share of value added in production will adversely affect the prospects of exports of even primary commodities from the South to the East. This is compounded by the nature of the structural forces in the centrally planned economies, such as the nature and pace of technical progress, which can be expected to push in the direction of more East-West trade in the 1980s, rather than East-South trade. 17/

Finally, the future path of East-South trade could be affected by attempts in the West to put East-West trade back on its previous growth path. Two of the p ible measures that Western business enterprises could take to induce furt de would be to accept Eastern goods and then either to encourage

16/ See the discussion in Richard Portes, "East, West, and South: the Role of the Centrally Planned Economies in the International Economy". In: S. Grassman an E. Lundberg, eds., The World Economic Order: Past and Prospects. London: Macmillan, 1981, p. 319-357.

17/ ID/WG.357/7

the dumping of these goods in the West or, alternatively, to then market these Eastern goods in the South. The first hypothetical alternative would have a disastercus effect on the export market for NICs and other developing countries and the second would serve to appreciably increase competition for developing countries with similar industries.

The net effect of these factors is that the dichotomy both in East-West trade and in East-South trade will be increased and the minor image created by the two trade patterns in the past will be ever sharper in the future.

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One factor that could bode well for the exports of the developing countries to the CMEA market is the demand generated within the CMEA by the new measures in the 1981-1985 plans to increase the standard of living. This could not only lead to increased imports of citrus fruit, cacao and similar goods, but also - in the absence of a history of production within the CMEA of a correspondingly wide range of consumer goods - there will be a market opening for the developing countries for exporting manufactured consumer goods.18/

A second factor that may lead to an increase of exports of manufactured goods from the South to the East is the growth in trade restrictions in the West. Thus, in 1980 Indian exports to the Soviet Union increased by 72 per cent, with the largest increase in just those kind of manufactured goods that are facing increasing restrictions in the West.19/ But the motivating force here will be, of course, the force of compulsion on the side of the exporter rather than a new demand created on the side of the importer. And, with the recovery of the developed market economies from recession, the combination of the increased demand and the reduction in pressure for further increases in protection may well create the conditions for a reorientation of the developing countries' exports back to the former markets.

Finally, there is the opportunity created for the developing countries to increase their exports of agricultural products - and especially of grain - to

18/ A separate question is the one of the degree to which these will in fact be primarily exports produced by TNC affiliates established in the developing countries.

19/ Aussenwirtschaft, No. 45, 4 November 1981, p.4.

the CMEA market. This is a result of restrictions on trade in agricultural products imposed by the Western countries, and the resultant attempts of the CMEA countries, and especially the Soviet Union, to broaden their range of suppliers as well as of recent harvest failures in the Soviet Union and some East European countries. Thus both Brazil and Argentina recently signed five year trade agreements with the Soviet Union for the export of maize, soya, sugar, meat cacao, coffee and oil seeds in return for the import of oil and machinery (including particularly turbines for hydroelectric generating stations).

The longer-term potential for such developing country exports depends very much on the nature of the new US-Soviet grain agreements, as well as on the nature of grain harvests in Eastern Europe and the Soviet Union. Despite some reasons for suggesting the opposite, the probability is that the grain agreement will eventually be renewed for more than a one-year period, both because of a feeling in the US that an embargo on grain hurts the United States more than the Soviet Union, and because of the very successful 1981/82 grain harvest in the US. Particularly poor harvests in a number of countries in 1981, on the other hand, contributed to a net decline of 6 per cent in wheat production in the major importing countries,20/ and this in turn will create increased opportunities for grain exporting developing countries.

Turning to the prospects for exports from the East to the South, the markets where the East might well be best able to increase trade flows in these circumstances would perhaps be those where the products are produced using moderately capital-intensive production techniques and middle-level know how. But here a serious threat to the exports of the East to the South could well come from an expansion of South-South trade following from a more vigorous programme of economic co-operation among developing countries.

*

Another area that could prove very promising for the small East European countries in the CMEA would gradually come into existence as the Soviet Union developed their own light industry sector, this having the implication that the small East European countries would no longer need to export the present volume of their light industry output to the Soviet Union. The small East European countries could, using the same resources, reorient their production

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20/ Foreign Agriculture, January 1982, p.12.

in the light industry branch in the direction of higher quality and more stylish products which could then be exported to the South (and, to a certain extent, to the West), with the lower quality and less sophisticated products being imported from the South.21/

Such a trade flow is perceived in the East as being in keeping with the pattern of comparative advantage in the East and the South, and is particularly appealing to those countries in the East where the labour shortage is most marked (as in Hungary). The chief constraint on the further development of a pattern of specialization that had the East import highly labour-intensive products from the South and export to the South products with a relatively higher capital intensity is simply that of the balance of payments.

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Whatever the size of these flows, they will clearly be increasingly carried out on the basis of long-term trade agreements, since these confer the relatively high degree of stability and security in trade desired by the CMEA side. These were among the important factors which led the CMEA in 1975 to conclude the first framework agreements with the developing countries. Increasingly, the trade of the individual countries of the European CMEA has become specialized in supplying equipment and services for specific branches of the economy: Bulgaria, for agriculture (e.g., trade agreements with Iraq); Poland, for coal mining; and the Soviet Union for the iron and steel industry and hydroelectric technology (e.g., trade agreements with Brazil and Argentina).

Recent years have also seen a marked increase in the flexibility of the types of trade arrangements and multilateral operations concluded with the developing countries, one example being where tripartite agreements have been concluded between enterprises in a CMEA country, a developing country, and a Western country: here the Western firm enters a project as a subcontractor and is paid in currency of the developing country earned by the Eastern country as part of its trade surplus with the developing country. Another example is where an Eastern country engages in trade with Western firms and pays them with goods that the former has purchased with her surplus inconvertible currency held in a developing country.

21/ See the discussion in ID/WG.357/6.

An indication of how such agreements may look in the future is an interesting new swap agreement recently concluded between the Soviet Union and Mexico, where Mexico will supply Cuba with oil and the Soviet Union will then supply traditional Mexican customers (such as Spain, Yugoslavia and India) which are in much closer geographical proximity to the Soviet Union. Mexico and the Soviet Union will, of course, retain their preexisting financial arrangements for financing with their own traditional customers, the contracted delivery of oil simply having been physically made by a third party.22/

There are also clear indications that future relations between the CMEA and the developing countries will extend far beyond trade in goods, examples being the recent agreements of the Soviet Union to assist in the exploration for oil in India and Ethiopia, not only supplying equipment but also training personnel. The nature of the long-term dimension of these commitments is underscored by the example of the recent master plan that the Soviet Union has prepared for the development of Libyan gas production to the year 2000.23/

A SCENARIO FOR CMEA TRADE FOR THE 1980s

With this background on the nature of foreign trade in the CMEA countries and on both the general and the country-specific outlook for trade flows between the East and South, one can turn to the development of a scenario for CMEA trade in the 1980s. On the basis of the policy statements of the Soviet Union and her East European allies to international fora, there is abundant evidence of a desire to promote long-term co-operation, with the greatest potential for such long-term co-operation being seen as lying in the mineral and fuel extraction industries. As proposed by the CMEA countries, such agreements would allow the developing countries access to an increased volume of investment funds, would assist the developing countries in their attempts to develop processing industries, and are argued to be beneficial for the world as a whole since they would increase market stability (though, if they did so, they would only do by reducing the size of the peaks in the cycles, and could also serve to deepen the troughs).

22/ G. Kornat, "Moskau zeigt Profil", Handelsblatt, Nr. 209, 30-31 October 1981.
23/ Tass, Daily Economic and Commercial News Service, November 23, December 3, 10, 1981.

This view, that the developing countries should participate in international trade and development primarily through the production of raw materials, which they should make available at stable and 'equitable' prices, flows as a strong current through Soviet economic discussions.24/ In this respect Soviet relations with the developing countries would develop as a mirror image of the East-West trade relations, whereby the Soviet Union receives credit from the West for the purchase of technologically sophisticated machinery and equipment, and exports it in return for supplies of primary materials and other goods in repayment of the credit granted.25/

For the CMEA countries, a programme of industrial co-operation with the developing countries reduces the amount of industrial restructuring of their domestic economies which the CMEA countries would have been forced to carry out if additional sources of raw materials and fuels had not become available or had had to be extracted, at increasingly high cost, at home. Such a policy of long-term industrial co-operation does not, however, contribute appreciably to the attempts of the developing countries to restructure their economies and strengthen their manufacturing base, and is in essence a view of international interdependence and global co-operation oriented towards the preservation of the status quo in terms of the distribution of world manufacturing capacity. A major challenge in East-South industrial relations over the 1980s, then, will be to attempt to reconcile the perspectives, needs and demands of the East and the South.

The scenario for the future pattern of East-West-South trade relations that follows from a detailed examination of the development patterns of the CMEA countries over the 1976-1980 period, their current development, and the medium-plans for the individual countries for the period 1981-1985 would envisage a pattern of trade in which the developed market economies would provide technologically sophisticated machinery and equipment plus long-term credit for the development of Soviet raw materials, oil and gas. (Within the European CMEA there would also be elements of a similar pattern of trade

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24/ See Moskovsky Gosudarstvennyy Institut Mezhdunarodnykh Otnoshenii, Mirovaya Ekonomika (The World Economy), Moscov, Mezhdunarodnyye Otnosheniya, 1978; R. Ulyanovskiy, "The Economic Front of the Struggle Against Neocolonialism", Narody Azii i Afriki, No. 4/1978, pp. 3-17.

25/ V. Akhimov, "Bank's Participation in Soviet Union's Foreign Trade", Foreign Trade, No. 6/1978, p. 13. Quoted in E.K. Valkenier, "The USSR, the Third World, and the Global Economy", Problems of Communism, July-August 1979, pp. 17-33.

between the small East European countries and the Soviet Union.) The European CMEA would, in turn provide its technology and allied machinery and equipment to the developing countries.

The developing countries would then concentrate on the production of natural resources to fuel the development process in the CMEA countries (as well as in the developed market economies). The developing countries would, in return, benefit from assistance from these countries in the further development of their extraction industry and of their local processing industry. This international co-operation would include not only bilateral deals between the CMEA and the developing countries, but also joint ventures of the CMEA countries and the more developed of the developing countries in third countries, as well as tripartite co-operation agreements among the CMEA countries, the developing countries, and the developed market economies.

In the case of joint CMEA-developing country projects in third countries, the CMEA would be the technologically more advanced partner, whereas in tripartite agreements the West would provide the advanced technology, the East the middle-level technology, and the developing countries chiefly their labour and raw materials. These arrangements would clearly also be differentiated according to the economic conditions in different groups of developing countries, with programmes for Tropical Africa emphasizing measures to increase the exploitation of their natural resources, for middle-level developing countries stressing joint ventures to increase local production and investment opportunities, and for oil-exporting developing countries being oriented towards the sale of machinery and entire turn-key plants for cash or oil deliveries.26/

In general this scenario, which has been developed in both the Soviet and East European literature in recent years 27/ and which is in fact almost

26/ See V. Shaynis, "Socio-economic Differentiation and Problems of the Typology of the Developing Countries, Mirovaya Ekonomika i Mezhdunarodnyye Otnosheniya, No. 8/1978, p. 93; Joint Statement by the Socialist Countries at the Fourth Session of UNCTAD; N. Tret'yukhin, "New Directions in the Foreign Economic Relations of the USSR and Deepening of its Participation in the International Division of Labour", Vneshnyaya Torgovlya, No. 1/1977, pp. 7-14.
27/ See N.P. Shmelev, ed. Strany SEV v Mirokhozyaystvennykh Svyazyakh (Countries of the CMEA and their Relations with the World Economy), Moscow, Nauka, 1978; L. Zurawicki, The Prospects for Tripartite Co-operation", Intereconomics, No. 7/8/1978, pp. 184-7; E.K. Valkenier, op. cit.

identical with the pattern of trade relations that existed in the latter 1970s, is consistent with the pattern of static comparative advantage of both groups of countries. But clearly, the desire for the further development of such a pattern of trade on the part of the CMEA countries runs in conflict with many elements of a development programme for the developing countries based on their equally strongly expressed desire for accelerated industrialization. Moreover, as has been outlined above, the prospects for altering this pattern are worse in the early- to mid-1980s than in the late 1970s.

It is also crucial to note that, in the view of some CMEA economists at least, the foreign trade relations of the East with the developing countries have not become an organic component of the CMEA countries' economic strategy. Rather, they "were regarded by the CMEA countries as a special case an as a certain sacrifice" 28/ - a situation which by its very nature limits the potential for such trade flows serving as a vehicle for international industrial restructuring.

A major challenge facing East-South trade relations in the 1980s, then, will be reconciling the needs of the CMEA for the raw materials and fuels to dominate their imports from the South with the desire of the South for a very rapid development, in both absolute and relative terms, of their exports of manufactures to the East.

AN EASTERN SCENARIO FOR EAST-SOUTH TRADE

Turning to focus in more detail on prospects for East-South trade in the 1980s, the only quantitative scenario with a detailed East-South component currently available from authors in the CMEA appears to be that of Dobozi and Inotai.29/ These authors assume a propitious general development of international relations over the 1980s that is more favourable than that actually occurred in the late 1970s or the beginning of the 1980s, and regard "accelerated modernization rather than the redeployment of declining branches of industry, in the developing countries as the principal area of industrial co-operation".30/

28/ E. Palóca-Nemeth, op. cit., p.50.
29/ Dobozi, István and András Inotai, "Prospects of Economic Co-operation Between CMEA Countries and Developing Countries", In: C.T. Saunders, East-West-South (London: Macmillan, 1981), pp. 48-65.
30/ Ibid., p.52.

The pattern of structural change that is prescribed for the developing countries over the 1980s is one that will further develop the complementarity between the two groups of countries and should include not only light unskilled labour-intensive manufactures, but also some branches of engineering and of chemicals, as well as some raw material-intensive branches, whereas the Eastern side will concentrate on more capital-intensive goods and those with a high technology content. Because of "growing world economic instability", the authors feel that comprehensive and long-term agreements at the branch and intra-branch level - with time horizons of 10, 15 and even 20 years - will have to be increasingly relied upon "as elements of stability in the international division of labour". 31/

The major conclusions of the Hungarian study are that trade between the European CMEA countries and the developing countries will grow about twice as rapidly over the 1980s as world trade overall, and significantly faster even than the overall trade of the European CMEA countries; and that the trade surplus of the European CMEA countries vis-a-vis the developing countries will disappear, with the account being balanced at best. (See Table 7.)

The conclusions require at least one basic comment. This is that a balanced - or even more a negative - trade balance in East-South trade from the side of the CMEA is only possible if one assumes a markedly improved climate for East-West financial relations (to allow further credit, the rescheduling of existing debt, and lower interest rates on Eastern borrowings). The more pessimism there is as regards these factors, the more difficult it is to accept the forecast.

As was discussed above, Eastern economists writing on trade perspectives generally take as their starting point the assumption of the satisfaction of the growing import requirements of the CMEA region for fuels and raw materials by the South.32/ The composition of trade forecast for 1990 (on Table 8) shows that in trade in fuels this standard assumption is maintained, with the result that petroleum imports will make up to one half of the total import bill (of $41 to $49 billion) forecast for 1990. This in turn clearly restricts the possibilities for other imports. In a manner consistent with

31/ Ibid., p.58.

32/ See also ID/WG.357/5.

Table 7. Forecast of trade between the developing countries and the European CMEA countries in 1990

(in constant 1977 prices)

	Value, $ thousand million				Average growth, per cent per year		Share of developing countries in total per cent	
	total trade		trade with developing countries		total	developing		
CMEA EXPORTS	1978	1990	1978	1990	1978-90		1978	1990
Bulgaria	7.4	16.8	0.71	2.0	7	9	9.5	12
Czechoslovakia	11.7	29.5–36.8	0.93	3.0–3.7	8.0–10	10–13	7.9	10
GDR	13.3	30.0–33.4	0.64	2.1–3.3	7–8	10.5–14.5	4.8	7–10
Hungary	6.3	20.0–22.2	0.55	2.4–2.9	10–11	13–15	8.7	12–13
Poland	13.5	37.9–42.2	1.12	4.7–6.1	9–10	12–13	8.3	12–14
Romania	8.0	22.5–25.1	1.58	5.6–7.5	9–10	11–14	20.0	25–30
Soviet Union	52.2	118.2	8.24	20.4–23.2	7	8–9	15.8	17–20
European CMEA	112.4	274.9–294.7	13.77	40.2–48.7	8–8.5	9.5–11	12.2	14.5–16.5
CMEA IMPORTS								
Bulgaria	7.6	17	0.31	2.1	7	17	4.3	12.5
Czechoslovakia	12.6	29–35	0.58	2.8–3.5	7–9	14–16	4.6	9.5–10
GDR	14.6	31–35	0.73	2.5–3.5	6.5–7.5	11–14	5.0	8–10
Hungary	7.9	20–25	0.76	2.5–3.0	8–10	10.5–12	9.6	12–13
Poland	15.3	40–45	0.90	5.5–6.5	8.5–9.5	16–18	5.9	14–15
Romania	8.0	20–25	1.44	6–7.5	8–10	12.5–15	18.0	30
Soviet Union	50.5	118–109	4.04	20–23	7.5–6.5	14–15.5	8.0	18–20
European CMEA	116.5	275–291	8.76	41.4–49.1	7.5–8	14–15.5	7.6	15–17

SOURCE: Dobozi and Inotai, op. cit.

Table 8 Forecast of the commodity structure of trade between the developing countries and the European CMEA countries in 1990

(in per cent)

	Exports		Imports	
	by the European CMEA countries			
	1977	1990	1977	1990
SITC 0+1 Food etc.	11.3	10	49.3	20 – 25
SITC 2+4 Materials	6.1	10	18.9	10 – 12
SITC 3 Fuels	13.7		20.5	35 – 45
SITC 5+6+8 Other manufactures	26.8	25	11.0	20 – 25
SITC 7 Machinery & vehicles	42.2	55	0.3	

Source: Dobozi and Inotai, op.cit.

On the side of CMEA exports to the South, the general assumption of Eastern economists that machinery and equipment, and especially complete plants, will be the fastest growing component is shared by Dobozi and Inotai. Indeed, the developments are forecast to proceed with even more intensity than previously: thus European CMEA countries' engineering exports are to be increased from $4 billion in 1977 to $22-$27 billion in 1990. The result of this development is that the degree of concentration of Eastern exports to the South in manufactures would rise to as high as 80 per cent.

If production of manufactures is characterized by a programme of intra-branch specialization in production that utilizes those technologies and resources where the respective countries have a comparative advantage, then it is indeed possible that the CMEA countries will be able to attain this pattern of export growth and as well as that the developing countries will be able to raise their share in the imports of manufactures as planned. But these forecasts cannot attain without a marked increase in specialization and rationalization in production and trade.

Moreover, it cannot be ignored that the East faces an ever increasing challenge to its exports to the South both from intra-South trade and, even more, from South-West trade. In addition, the fuel, raw material and agricultural exports of the South that (even in this scenario) still dominate imports in the CMEA in 1990 are hard goods that can command convertible currency; so the East faces the reality that the South can vote on the quality, design, etc. of CMEA goods with its purse.

EAST-SOUTH TRADE AND ACCELERATED DEVELOPMENT IN THE DEVELOPING COUNTRIES

As part of its programme of work oriented towards attempting to create a more conducive environment for the attainment of the targets of the Third United Nations Development Decade, the United Nations Industrial Development Organization has developed scenarios which explore the implications of the attainment of the objectives of the United Nation's International Development Strategy over the decade of the 1980s. 33/ For reference it will be recalled that the Strategy represents a comprehensive set of quantitative and

33/ For further details see the UNITAD team article "The UNITAD Project: a world model to explore institutional changes over the long-run", Industry and Development, No.6 (1982), pp.37-64; and UNIDO/IS.305.

qualitative targets for accelerating the development process in the developing countries over the 1980s, including a 7 per cent average annual growth rate of GNP and a target investment level equal to 28 per cent of GDP by 1990. A key role in the development plans of the developing countries is forseen in the strategy for the industrial sector, where the average annual growth rate of manufacturing output is targeted at 9 per cent; and for the exports of manufactured goods, as a vehicle for furthering the industrialization process.

The pattern, level, and balance of trade that this specific Third Development Decade (DD III) scenario generates is markedly different from the Eastern forecast just discussed - though it is crucial to state clearly that the goals for the DD III for the developing countries that are achieved under this scenario could just as well have been attained using differing trade matrices (and hence different patterns of East-South trade). At the aggregate level the scenario (see Table 9) shows a rate of growth of Eastern exports to the South well over twice that of Eastern imports from the South - a result which would insure a relatively massive surplus for the East to be employed for covering deficits on East-West trade and for servicing the Eastern external debt. (It will be recalled that in the previous scenario the major increase in growth rates was for Eastern <u>imports</u>.)

Three features stand out in the projected patterns of growth of CMEA exports to the South. First, as in the Hungarian scenario, it is assumed that the East will meet little opposition in forcing the export of machinery and equipment 34/ - a development which limits the possibilities for the expansion of South-South trade in this area. The second marked feature in the development of Eastern exports to the South is the average annual growth rate of energy exports of over fifteen percent per year - an outcome that reflects the assumption of a successful policy in the CMEA of developing and exporting natural gas, maintaining high levels of oil production, conserving energy in the domestic economy, and exploiting new sources of energy (and especially nuclear energy). The third feature that stands out is a trebling of the absolute volume of agricultural exports from the CMEA to the South. Even though, in light of the overall growth rate of Eastern exports to the South, this still represents a fall in the share of agricultural exports in CMEA

34/ SITC 695, 71, 72 (minus 724 and 725), 73, and 861.

Table 9. Projected trade flows between the developing countries and the European CMEA in 1990 under the assumptions of the DD III scenario of the UNITAD model.

	CMEA Exports			CMEA Imports		
	Value $ billion (1970 prices)		Average annual growth rate 1975-1990 (%)	Value $ billion (1970 prices)		Average annual growth rate 1975-1990 (%)
	1975	1990		1975	1990	
Agriculture	640	1940	7.7	2570	4775	4.2
Agro-food Industry	33	173	11.7	241	409	3.6
Energy	295	2476	15.2	329	90	-3.7
Intermediate products	889	2388	6.8	570	1778	7.9
Consumer non-durables	290	467	3.2	266	858	8.1
Equipment	2292	7658	8.4	428	309	-1.6
Consumer durables	300	712	5.9	621	359	-2.4
TOTAL	4741	15814	8.4	5026	8579	3.6

SOURCE: UNITAD model. See note 28 for sources.

exports, like the projected growth in energy exports it is an appreciably more optimistic projection than that of the Eastern European economists. And, even more so than in the case of the projected energy exports, it appears to make demands on the Eastern economies that would appear to be all but impossible to meet.

Despite the very high overall growth rate of trade, in terms of the branch structure of Eastern exports to the South, there was very little change outside of the energy sector. (See Table 10) For Eastern imports from the South the change in the commodity structure is somewhat more marked, but it is not clear that this is a reflection of a pattern of change in international trade that would strongly support the attempts of the developing countries to accelerate their industrialization.

As a result of the very positive development of the energy sector assumed for the CMEA countries, it is possible to reduce energy imports. In part this allows appreciable growth in imports from the South of consumer non-durables - products where the South has an increasing comparative advantage in terms of labour costs. But it is also true that the strong roots of the traditional pattern of trade are also reflected by an absolute growth in the import of intermediate raw materials double that of the growth in consumer durables.

By requiring imports of agricultural products and raw materials to fall the Eastern scenario left room for a very positive development of Southern exports of manufactured goods to the East. (See Table 6.) Since the UNITAD scenario forsees strong to very strong growth in the imports of the former groups of goods, the share of manufactures from the South in total imports of the East from the South can only fall over the 1980s.

In balance, then, the UNITAD scenario forsees the maintenance of the traditional pattern of development of East-South trade and, from the point of view of the South's drive to strengthen their exports of manufactures, is not at all optimistic. What is very optimistic in the scenario is the development of CMEA exports of agricultural products to the South - and even more so the development of fuel exports. Were these developments not to take place, one would forsee a reduction in the enormous Eastern surplus on East-South presently projected, an increase in the share of food imports in total imports and, most disappointing for the developing countries, most certainally a fall in the growth forseen for consumer non-durables.

Table 10. Composition of East-South trade in 1990: the DD III scenario

	Share in total CMEA exports to the South		Share in total CMEA imports from the South	
	1975	1990	1975	1990
Agriculture	13.5	12.3	51.1	55.6
Agro-food Industry	0.7	1.1	4.8	4.8
Energy	6.2	15.6	6.5	1.0
Intermediate Products	18.8	15.1	11.3	20.7
Consumer Non-durables	6.1	3.0	5.3	10.0
Equipment	48.3	48.4	8.5	3.6
Consumer durables	6.3	4.5	12.4	4.2
TOTAL	100.0	100.0	100.0	100.0

SOURCE: As Table 9.

CONCLUSIONS

The arguments presented above, then, suggests that the probable prospects for the expansion of East-South trade in the medium-term are rather limited. Both of the quantitative scenarios discussed point out areas with marked prospects for growth - but they also both make assumptions that one could judge as highly optimistic. But even where there is some prospect of expansion it is generally along very traditional lines and not in accord with the aspirations of the developing countries for rapid industrialization.

The picture that evolves from the foregoing analysis is that East-South trade - like East-West trade - appears at the end of the 1970s and beginning of the 1980s to have been approaching a modest, stable level, with only moderate real growth prospects, and with established partners dealing in established commodities. Such a generalization, in which East-South trade remains a 'residuum in intention', 35/ must be adjusted over time for changes in political realities that cannot presently be forseen; but the very nature of such exceptions supports the argument for the generality of the rule. If such forecasts are to be disproven and if East-South trade is indeed to play a significant role in the attempts of the South to attain the objectives embodied in the Third United Nations Development Decade, then there must be a number of fundamental changes in the nature of this trade.

The traditional trade pattern has been based on a resource and endowment picture that emphasized high technology and a capital surplus in the West, intermediate technology and cheaper labour in the East, and a wealth of resources and the cheapest labour in the South. It has been emphasized for some years by the Economic Commission for Europe that major factors in impeding the more rapid development of such trade flows were the inappropriate pattern of specialization in the CMEA and the inadequate export structure in

35/ Michael Kidron, Pakistan's Trade with Eastern Bloc Countries. New York Praeger, 1972, p.14.

these countries.36/ Adaptation of the industrial structure on the CMEA side in accord with the dictates of resource and factor endowments could, then, create conditions conducive to a more rapid expansion of East-South trade.

A further stimulus to East-South trade flows and thereby to the development of the developing countries could come from attempts to take advantage of the potential comparative advantage of small countries in internationally standardized products in which they can benefit from the economies of scale in spite of the smallness of their markets. In addition, attention to product differentiation in exports, where the South would attempt to orient themselves more to consumer preferences with respect to standards and promotional factors, could also create expanded opportunities for East-South trade.37/

This in turn could lead to the South attempting, in as far as technology, design capabilities, licensing agreements and the like permit, to focus more on non-essential consumer products of the type that have assumed growing importance in East-West trade because of (demonstration-effect stimulated) rising consumer tastes. The potential for exporting such goods - examples being sophisticated electronic consumer durables, certain types of clothing, textiles, cosmetics, and beverages - to the East will be markedly greater over the 1980s than for essential consumer goods such as basic foodstuffs, building materials, or fertilizers. Moreover, such products are highly 'switchable', in the sense that the developing countries could easily reorient their exports of these goods to other markets if conditions so dictated.

A further area of potential expansion in East-South trade is in the area of intra-branch specialization. Such developments have proceeded within the CMEA in recent years and could also proceed between the East and the South. This would provide a mechanism whereby economies that were all aiming at higher degrees of industrialization could nevertheless manage to increase

36/ Economic Commission for Europe, Economic Bulletin for Europe, Vol. 33, p. 3.32. Similar arguments are also presented in Volume 26-32.

37/ For an expansion and empirical test of such arguments in the context of West-South trade see P.K.M. Tharakan, L.G. Soete and J.A. Busschaert, "Heckscher-Ohlin and Chamberlain Determinants of Comparative Advantage". European Economic Review, 11 (1978), pp.221-239.

their trade in manufactures and, not incidentally, the efficiency of their industrial production. A precondition for such a development would be the need for negotations between the East and the South to develop a programme of inter-branch specialization.

A fundamental precondition for these developments and for the trade in general is that the East recognize the implications for them of the process of international industrial restructuring and the industrialization of the developing countries - something which they have up to now not done. This implies the necessity for the East to modify their plans for continuing to import primarily raw materials and fuels from the developing countries, since the developing countries are rapidly developing an industrial structure under which such products will progressively only be exported in a highly processed state.

Parallel to this is the fact that the evolution of East-South trade flows over the 1980s will see the development of an atmosphere of potential competition replacing the previous complementarity of import and export flows - this potential competition being both between Eastern and Southern exports of manufactures on Western markets and between Eastern and Southern exports of manufactures on Southern markets. This competition will be stronger, the more successful the South is in their drive for industrialization; the more successful the East is at attempts at rescheduling their debt and obtaining expanded credit facilities at lower interest rates; the more the import demand of the CMEA countries for fuels and, to a lesser extent, for raw materials is reduced as a result of high levels of production, successful conservation, and new exploration; and the lower the level of industrial growth in the CMEA countries over the [illegible]s.

A recent UNIDO investigation of the process of redeployment and structural change worldwide concluded that it is possible that, in the short- and medium-term, the CMEA countries "will not increase significantly their division of labour with developing countries through the redeployment of industrial capacities. Rather, the CMEA countries may primarily aim at continuing to secure raw material supplies from developing countries through bilateral agreements." 38/ Such traditional patterns of trade, however, can neither transform the structure of production in the South nor make for a new international division of labour.

A fundamental reason for the failure of the Eastern countries to fully appreciate the implications of the process of international industrial restructuring on the structure of their production and trade is that this process is carried out in the spirit of the development process in the developed market economies and the developing countries, where exports are often a motor of economic growth. In the East it is much more the case that imports are the motor of economic development, and it is on the preservation of import supplies rather than on the stimulation of exports that Soviet and East European economic policy focuses. This view is congruent with the conceptualization of East-South trade as a 'stop-gap' measure or as a residual source of supply. Substantial future development of East-South trade will require transgressing this role for trade with the South and co-operating with the South on evolving a new pattern and structure of trade corresponding to the new international development climate of the 1980s.

In conclusion, it appears that trade flows between the East and the South can break out of the zeitgeist of the 1970s that the United Nations Centre on Transnational Corporations has characterized as a 'hermetic East' confronting a 'passive South' (in the face of an 'expansive industrial West'). 39/ But this will not happen automatically. But it will only happen as part of an internationally agreed programme of international industrial restructuring on a global level that presupposed the willingness and ability of all countries involved to adapt their industrial structure to the new economic realities of the 1980s and particularly to the economic aspirations of the developing countries.

38/ UNDIO/B/282.

39/ Alberto Jiménez de Lucio, "The East, the South and the transnational corporations". CEPAL Review, 14 August 1981, pp.51-61.